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Transition towards EU Standards in Serbian agriculture: impact on companies' strategies

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Janko Krdžić BA

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Mitbetreut von | Co-Supervisor:	Mag. Oksana Galak PhD

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CAP	Common Agricultural Policies
FAO	Food and Agriculture Organization of the United Nations
SAP	Stabilization and Association Process
IPA	Instrument for Pre-accession Assistance
IPARD	Pre-Accession Support for Agriculture and Rural Development
SEE	Southeastern Europe
EU	European Union
GDP	Gross Domestic Product
SFRY	Socialist Federal Republic of Yugoslavia
SORS	Statistical Office of the Republic of Serbia
RSD	Serbian Dinar
CAP	Common Agricultural Policies
ROC	Russian Orthodox Church
SME	Small and Medium-sized Enterprises
EAGGF	European Agricultural Guidance and Guarantee Fund
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
ECSC	European Coal and Steel Community
EEC	European Economic Community

RDP	Rural Development Programs
COM	Common Organization of the Market
BSI	Global Standard Institutions
WTO	World Trade Organization
TRIPS	Trade-Related Aspects of Intellectual Property Rights
NAFTA	North American Free Trade Agreement
MAFWM	The Ministry of Agriculture, Forestry and Water Management
AEV	Agro Eko Voće

1 Introduction

The idea for writing about this topic is to understand how upcoming EU standards in the agricultural sector will influence the general Serbian agricultural market at many levels and aspects but the one on which this master thesis will focus most is on how it will influence Serbian agricultural companies whose their strategies are partly or totally focused on exports in the EU. Their strategies might shift in various directions depending on different external influencers like new laws, regulations, trends, market change, or internal type of change in management, staff, philosophy, and new product placement.

Serbian agriculture is a very wide topic that has very deep roots back in the past. In recent years agriculture has been developing with new incentives, suggestions, and support. That support has its vision and the path of how Serbian agriculture and its institutions should look like the moment before Serbia enters to European Union. Summing that up, the following research question of this master thesis is "How market strategy and value chain of agricultural Serbian companies has been influenced during the process of Serbian accession to EU?".

Moreover this research question will permeate through major part of the master thesis that will focus on the real-life examples of changes, struggles, and upgrades that 3 Serbian companies' strategies are facing with new laws, regulations and markets in Serbia and the EU. This particular topic has been chosen due to the author's personal interests in this field, with the aim of using the knowledge, information, and the outcomes of the research to improve his family business and to raise awareness among people about the importance of institutions as cornerstone of every developed system and how that system influences business life of companies. The data for this work will be collected from secondary sources such as books, articles, and journals related to the field of agriculture and the subsidiary system in Serbia and laws and regulations from the EU as part of the accession period that fits to exploratory type of research. On the other hand the data will be collected from a primary source such as semi-structured interviews of 3 different Serbian firms (Agro Eko Voće, Medino and Moravac) and employees of the Ministry of Agriculture of Serbia. It is known that external conditions like laws, regulations, market place and buyers are some of the most crucial parts which influence the strategy, philosophy, and product of any company in business world. Laws either give you possibilities or limitations, marketplace gives you a current or future picture of surrounding and buyers create wishes and provide profit.

Through this thesis, the goal is to see how all these conditions influence each other and what effects they lead to. To understand them, efficiently to use them, and to prepare ourselves for the future obstacles which will show up.

2 Theoretical Framework

The literature body on the trade, europeanization, effects on value plates and strategies of agriculture can be loosely understood as consisting of four thematic areas. The first thematic area has in focus the process of international trade of agricultural products, exploring challenges and opportunities along the way. The researchers ((Anderson, 2010), (Martin and Winters 1996)) within the second thematic area focus on the state of affairs in the international trade scene itself, as a framework in which the evolution of the CAP of the European Union takes place. The third thematic area explores ((Kiss J. 2011) and Csaki, C., and Jambor, A., (2009)), (Szabó, M. 2008), (Volk T., Rednak M. and Erjavec E. 2012), (Kumrić O. and Franić R. 2005), (Cameron, David R. 2004), (Leftwich & Sen, 2010), (Stanković M. 2012), (Andrić, N., Tomić, D., Vlahović, B. 2008), (Berkum S. van, Bogdanov N., 2012)) the effects on the accession itself, with numerous comparative studies of different experiences. Finally, the fourth thematic area instead of a macro-level perspective focuses on the micro-level experiences of agricultural small enterprises. Furthermore, this literature review will focus on how changes in institutions and markets can influence the value plate of agricultural enterprises and their strategies which was main focus in the paper of Michael Boehlje, Allan Gray and Craig Dobbins from 2004. On top of that there will be reminder about well-known framework of Porter's five forces.

The evolution of the EU to an economic trade regulatory framework takes place in an environment of developing international trade. That agricultural trade had its ups and downs one of the relevant authors is prof. PhD. D**. Gale Johnson.** In his article "*World Agriculture, Commodity Policy, and Price Variability*" **(1975)** he tried to explain the relationship between governmental agricultural policies and price variability. He demonstrated that, in the past, main focus in terms of price stabilization was governing (through the policies and programs) inside the borders of their country and far less on the international level. This national price fluctuation was articulated by-product of high supply because of good crops year or the change in demand because of market conditions. But in order to have a stable price, you need to have demand or supply functions very elastic. Demand back in the days was questionable, so the supply was the only way through which this stability can be created. Two possibilities occurred: import and/or export or storage.

The same view was shared by Anderson explaining that the income of the farmers was dictated by the government with "pro-urban" and "anti-agricultural" biases. (Anderson, 2010). On the one hand, governments had different kinds of discriminatory anti-trade policies which included restricted imports, and restricted exports, whose initial objective is price stabilization in the domestic market. On the other hand, the effect of such "market-insulating behavior" is affecting the international food market and pushing other governments to do the same. He pointed out that in many cases high-income countries help their farmers (either at the beginning or at the end of the production process) and in developing countries, they are imposing big taxes which creates some kind of frustration among farmers in the international market. Moreover, from the creation of the GATT in 1947 until the Uruguay Round, the development of agricultural policies has been put on the side, which made further ground for more attractive regional trading agreements. In his recent studies, he has shown what has been changing from 1980 until 2010 in terms of the liberalization of trade, especially through the instruments of the CAP. Together with the help of the data from his colleagues (Martin and Winters 1996) created Global CGE (computable general equilibrium) models which show the benefits of trade liberalization.

Agriculture is, however, first and foremost the matter of nature and then the rest of the other conditions. The same thing is shared by economist Christopher L. Gilbert (2010) under his "increased supply variability" which can raise the price of the food, and that bad weather in one region can make a profit for another region, but the side effect of that is the rise of the food price. On the other side, he mentioned that "Increased demand variability" is motivated by the rise of big economies like China, which increased the demand for different commodities which increase as well as the price of food. Furthermore, the use of food crops as biofuels and feedstock was for him an important condition.

Major comparative analysis of Kiss J. (2011) and Csaki, C., and Jambor, A., (2009) made understandable presentations of different agricultural parameters and patterns in a specific time frame. Those parameters represent employment in agriculture, percentage of agricultural production in GDP, agricultural production performance, trade, and many others. On the other side Szabó, M. (2008) pointed out some difficulties and misbalances in Hungarian agrarian national politics, due to wrong objectives and focus on unimportant sectors in the pre-accession period. In order to go through the accession process more smoothly in the agrarian sector, there is a need for a previously strong basis at national agrarian policy created on rules of CAP as it happened in the case of Slovenia, explained by Volk T., Rednak M. and Erjavec E. (2012). Erjavec E. (2005) added how strategic thinking and good negotiation skills could create a model in direct payment which afterward was used on other upcoming member states. Still, Kumrić O. and Franić R. (2005) mentioned that the biggest holdback during the pre-accession period were veterinary and phytosanitary standards.

In the paper of Cameron, David R. (2004), five most critical challenges which faced the post-communist countries during the accession in 2004 are elaborated. Those changes were two-way streets, on one side new member states have 5 general challenges, and on the other side, the EU has the tests in terms of budgetary, administrative, and operational. This process of EU institutionalization or "Europeanization", is "the rule of the game" (North, D. (1990), p.3) which provides a relatively predictable structure for the member states. The institution follows transformation in the way society evolves. In Leftwich & Sen, (2010) research they explained how institutions can create good and bad effects, it is the question to what extent a certain behavior is allowed and if the placement of the resources brings welfare to the society. Jütting, J. (2003) used an analytical framework to make a clear understanding of exogenous and endogenous institutions, the importance of different levels in the institution, local setup, and the reaction of actors (in both ways) and what concerns many authors is the impact of institutions on development outcomes. The same opinion is shared by Leftwich & Sen, (2010) with Jütting, J. (2003) that "formal and informal rules and norms can be complementary, competing or overlapping "(Carter, B., 2014, p.7).

Chronological aspects of the development of the relationship between EU and Serbia can be seen in the ISAC Fond, 2017 "Guide to Serbia's accession to the European Union". This guide gives the structure of EU, direction of decision making, acts and instruments which EU can apply in period from year 2000 to 2017. One the important steps in pre-accession process to EU is Common Agricultural Policy. For Stanković M. (2012) CAP represents the outcome of long-lasting interactions and process which arise from big number of internal actors in unified market of EU. These actors are mostly producers, EU institutions, the governments inside the EU, and in the end the consumers.

The agriculture of the EU takes the biggest financial support of rural areas and cornerstone of environmental quality. The importance of the CAP rises as new member states join the EU. Well-functioning of many areas of the EU in terms of economy, society, and environment would be not possible without the two pillars of CAP (Andrić, N., Tomić, D., Vlahović, B. 2008), market support through a system of guaranteed prices and rural development Stanković M. (2012). In the report from Berkum S. van, Bogdanov N., (2012), they focused on the "Copenhagen criteria" which eventually occurred during accession negotiation with Serbia. So their objectives are about the reality of a functioning market economy, the importance and their relation of intuitions' need to bring closer such a market economy of the EU. These criteria from the report have relation to agriculture, food, rural development, and structural policy. They suggest that the Serbian government should provide better public service to the agro-food sector. Such a public sectorial help can improve the readiness of that the Serbian agro-sector enterprises for the upcoming changing policies and market conditions. They pointed out that the Serbian agro-food supply chain awaits an increase in competition the moment Serbia is in the EU. One way to do it is by supporting the “commercially oriented producers by horizontal and vertical integration.” (Berkum S. van, Bogdanov N., 2012, p.197) With higher food safety standards pushed by CAP, the support in the form of “competitive grants within the framework of rural development programs (IPARD program).” (Berkum S. van, Bogdanov N., 2012, p.199)

In a qualitative descriptive analysis on the basis of empirical data Zekic, S., Matkovski B., and Kleut, Z. (2016) came to the conclusion that structured funds will limit impacts on the disproportion of the welfare between rural and urban areas. Mostly the inputs of IPARD funds are on the farms and enterprises directed and not on rural households for various reasons. Such behaviour limits rural development in RS.

Berkum S. van, Bogdanov N., (2012) pointed at the retail and food processing industry demands higher standards in food quality and safety than the farming sector. Such market conditions can easily move small farmers out of the possibility to work with minimal standards, due to insufficient own resources necessary for new investments. Moreover, larger retailers tend to cooperate with larger farmers in order to have more predictable and less costly procurement, especially in the case of perishable products. However small and medium farmers can have better opportunities in upcoming years if processes decide to make move in the direction of investment of vertical coordination in terms of better inputs, knowledge sharing, modern techniques, and by so improving end product for them(processors) in terms of quality and quantity. Still, the Serbian government can promote the marketing structures like cooperatives or associations of small farmers in order to have bigger bargaining power. The bargaining power of supermarket chains in Serbia rises by setting their own standards on the agro-food chain, in which public standards are taken at a minimal level. Such effect of different standards down to food-supply chain can create better competitiveness and readiness for the EU market.

In the paper of Michael Boehlje, Allan Gray and Craig Dobbins from 2004 called “*Strategy development for the farm business: Options and analysis tools*” they used framework developed by Michael Porter. It is the tool called “value chain analysis” or “value plate” whose purpose is to identify the resources and capabilities of farm enterprises in order to find out possible competitive advantage as result. This framework recognizes the activities the firm implements to create value (to deliver production service) and they are grouped in the plate. Total value which that enterprise creates is represented by external boundary of the plate. Each individual activity has its own box which represents the cost of performing activities. The point is that value created for customer from the grouped activities in the plate is higher, than cost of the performing these activities, by doing so profit is created. Some enterprises are trying this individual box to size down and to have the lowest cost, other enterprises think about activities they have or they can add in order to create more customer value. With more added value comes competitive advantage. Keeping in mind what is their core competence, farm businesses should adapt their overall strategies toward the constant change and potentials of marketplaces. There are two completely different strategies, “Cost Leadership” and “Product Differentiation Strategy”. The value plate is a presentation vehicle that will help managers to access the potential of different actions that might be used as part of one of the strategies and to see if those activities can create competitive advantage in comparison with the competitor in the same marketing segment.

2.1 Institutionalization

In the paper of Keman, H. (2017), he sees institutionalization as “a process intended to regulate societal behavior (i.e., supra-individual behavior) within organizations or entire societies. At least three actions in the process can be distinguished: (1) rulemaking or installment, (2) rule adaptation, or developing best practices, and (3) rule change, or replacing old rules with new ones“. Such scenario could be applied for any type of economy and any industry. When it comes to agriculture the idea of the process of institutionalization has its own directs, developments process and concerns. Institutional environment can make big impact on production (quantity, quality, and diversity), marketing strategy, usage of the arable land, application of the technology and general profitability.

For example Thimoty Besley in his paper “*Property rights and investment incentives: Theory and evidence from Ghana*” from year 1995 pointed out how property rights as an institutional factor have curtail starting point (if they are well organized and applied) on farmers and theirs behaviour when it comes to land preparation and organization, introduction of new technologies and formulation of theirs business strategies.

Johan Swinnen (2015) shares a similar philosophy, where he specified that the application of governmental measures and laws can most directly reform market actors' behavior and results. Things like subsidies, trade restrictions and environmental regulations can affect the organization of production, allocation of inputs, strategy of the companies and general engagement in agriculture. The way the government will manage the execution of agricultural policies will instantly affect the availability of resources, the profitability of the projects and the environmental sustainability of the sector. Therefore preparation of examination on the impacts of certain governmental regulations on agricultural markets represents a cornerstone in the thought process of the managers in charge of agricultural business.

This process in economy enables a useful context for evaluating the impact of institutions on the market participants and their behavior in agriculture. By observing the role of property rights, laws, social rules and institutional change that can result the higher and valuable understanding of complex relationships that reshapes constantly agricultural markets and theirs aftermaths.

2.1.1 Difference between Institution and Organization

In order to have better understanding what some experts think what institutionalization is, we should first try to understand what institutions, their differences, structures and interrelations are. For (North, D.1990, p.3) institutions are "the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction." Institutions have intentionally or not unintentionally power to influence human behaviour in political, social or economic ways. He explains when institutions created solid structure in some sphere of the life, it normally reduces uncertainty. Through time they are slowly evolving and by so they are updating choices for the society. Some examples of those are: "conventions, codes of conduct, and norms of behavior to statute law, and common law." (North, 1990, p.6).

In the research of (Leftwich & Sen, 2010, p.9) they pointed out that sometimes effects of the institutions can be very different, and they mostly depend "in which way institution interact with organizations and individuals." It is important to distinguish between institutions and organization. Simple modified story of (Leftwich & Sen, 2010, pp.14-15), based on comparable idea of institutions and organizations and football North, D. (1990) could give better distinction. In that case institutions represents "the rules of the game" in this case football, whereas organizations would represent the players with different preferences and interests. FIFA or national associations as the institutions have the right through the referees (police, court) to impose the rules, on the players and in this case organizations. In order for the game to be fair for all, "stable and repeated 'game' is established when the rules are understood and accepted (they are held to be legitimate) by all the players and when they are consistently applied."(Leftwich & Sen, 2010, p.15) So in the end it comes to interaction between institutions, organizations and individuals.

North, D. (1990) emphasized that when individuals organize themselves in groups (bodies) and share same intentional interest in order to achieve a certain goal that means they are creating or/and they are part of the organization. He also distinguishes 3 general types of the bodies: "Political body (political parties, the Senate, a city council, a regulatory agency), 2. Social bodies (churches, clubs, athletic associations), 3. Educational bodies (schools, universities, vocational training centers)." (North, D.1990, p.5) The way how management is structured, the knowledge and effort

that have been implemented in the process of "learning by doing" will clarify the positive effects over time. Organizational life cycles mostly depend on the institutional framework, on how they are created and how they developed themselves. So do not forget to distinguish between the intentions of the institutions and organizations. Institution's or the "the rules of the game" intention is to create applicable and defined rules for every "player" or "team", and the organizational intention is to win the game. The methodology of how one team win can differ, from good tactic, good health or with not such "fair play". (North, D.1990, pp.4-5)
Scott W. Richard in his 4th edition of the book "*Institutions and Organizations: Ideas, Interests and Identities*" from 2014 had a bit modified vision of the structure of the institutions where he mentioned that institutions define "three pillars "and they are: „the regulatory, the normative, and the cultural-cognitive". (pp.59-70) The regulative face of the institution is having formal rules and procedures which individuals have to follow in order not to get negative sanctions or to get rewards if they have done accordingly. (p.61) Normative part is something that is connected with values and norms in the "how things should be done". (p.64) In the end, "shared conceptions that constitute the nature of social reality and create the frames through which meaning is made" represents cultural-cognitive one. (Richard, S. 2014, p.67)

2.1.2 Classification of Institutions and Relationship Between Formal and Informal

There are many classifications of institutions by many different authors. Jütting, J. (2003) came up with this categorization and they are "divided into three approaches depending on: the degree of formality, different levels of hierarchy, the area of analysis." (Jütting, J. 2003, p.11)

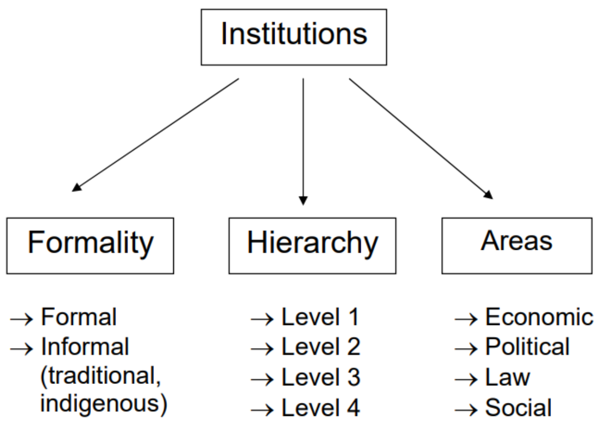

Figure 1: Different Ways of Classifying Institutions

Source: Jütting, J. (2003), "Institutions and development: A critical review", Working Paper No. 210, OECD Development Center, p.14.

In the 21st century we have to adapt as the North (1990) would use Adam Smith's Wealth of Nations as an example where “the evolution of the institutions that creates hospitable environment for cooperative solutions to complex exchange provides for economic growth”, to try to understand correlation and “the specification of exactly what institutions are, how they differ from organizations, and how they are influencing transaction and production costs is the key of the analysis”(North, 1990, p. vii).

Formal Institutions

Formal rules as well as informal rules go to all layers of the above classification structure. They “include political (and judicial) rules, economic rules, and contracts.” There are different levels of each of these spheres, for judicial these are “constitutions, statutes, common law” and on the end the “contracts” between individuals with exact parameters. Through the political formal institutions, they can enforce “hierarchical structure of the policy”. Economical rules “define property rights” which give possibility to individuals to use that property, to acquire money from that property or to get money in exchange for the property, defined in the “contracts” as “provisions specific to a particular agreement in exchange.” (North, D.1990, p.47)

Informal Institution

For formal institutions it is kind of logical how to frame them, and to understand how they are established, but the informal ones are different. “They come from socially transmitted information and are a part of the heritage that we call culture.” (North, D.1990, p.37) They are around us and we are not even perceiving them but we are constantly repeating them through interaction “they are (I) extensions, elaborations, and modifications of formal rules, (2) socially sanctioned norms of behavior, and (3) internally enforced standards of conduct. “(North, D.1990, p.40-46)
In the article of Jack Barbalet from 2022, where he pointed out the view of Helmke & Levitsky (2004, pp.727-728) who see this distinction between informal institutions and cultures in the way that they ”may help to shape informal institutions” but give other meaning to “in terms of shared expectations rather than shared values”, they would add that informal institutions are“ socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels”.
Before we continue to write about interaction between formal and informal institutions or formal and informal rules, it is good to point out that North (1990) mentioned that the change of both types of institutions are always in incremental and nearly never in discontinuous manner. Yes, it

might look at first glance, when some new law comes or revolution changes political or economic formal behavior, but the informal constrains are deeper woven into norms, culture and tradition which persist despite formal changes throughout the time, and that is the reason why cultural behavior is the compass for the past and future behavior. (p.6)

Baland & Platteau (1996) pointed out that in informal institutions as social norms, traditions and relationships play important role in forming behavior and interactions in agriculture. Social norms which are part of collaboration, mutuality, reliance and community relations can influence farmers' acceptance of new protocols, interchange of valuable information and involvement in group achievement.

Interaction Between formal and informal institutions

It would be good to point out the relationship which formal and informal institutions have, in order to be aware of the processes (internal and external) which might occur that can affect most of the aspects of everyday actions, interactions and environment. Firstly Pejovich (1999, p.170) explains that "formal institutions can suppress but cannot change informal institutions". He referred to McAdams (1997, p.347), when he said that "formal rules can change informal rules". Pejovich argues that in the case of the USA when it imposed laws on restricting smoking. With help informal rules on smoking, had already started to modify itself and those new formal rules only brought on higher level (institutionalize) and made it a law. The point which (Pejovich, S. 1999, p.170) wants to make that in many cases formal rules did not change informal ones. As one of the examples to that is when "Serbs (and countless other ethnic and religious groups) preserved their informal institutions through five centuries of Turkish formal rules", in other words, occupation. In this correlation of the forces, we can add term "accommodating" when the actors of informal institutions accommodate it into formal ones, in the way that it changes "the spirit but not the letter" which will make formal institution behave they prefer, which ultimately will not lead to breaking the law. (Helmke and Levitsky, 2004, p.729)

Other possibility which might occur is when, informal intuitions are in direct conflict with formal ones, and mostly happens when the "formal rules and procedures are not systematically enforced" so it gives the incentive to individuals to behave in the opposite way. (Helmke and Levitsky, 2004, p.729) According to working paper of Guillermo O'Donnell from March 1996, such behavior can be seen by politicians and their "particularistic norms" where they do not make "the behavioural, legal, and normative distinction between a public and a private sphere" which "formal rules of the institutional package of polyarchy, would be considered corrupt" leads to ignoring public purposes. (pp.12-13) In such interaction of formal and informal institutions or formal and informal

rules it is important to point out that it can “raise transaction costs and reduce the production of wealth in the community”. (Pejovich, S. 1999, p.171)
Next possible iteration when “formal rules are either ignored or rendered neutral” (Pejovich, S. 1999, p.171). McAdams (1997, p.342-45) discussed in Lisa Bernstein’s analysis (1996) where she explains that American merchants more often like to fix the problem without entering in “expensive legal system for enforcing the contracts”. Or Helmke and Levitsky (2004, p.730) pointed out other good example of this situation when formal institutions have “lack of credibility” and “Mexican opposition leaders engaged in *concerta- acesiones* during the 1990s because they did not view the formal electoral courts as credible, and Peruvian villagers created *rondas campesinas* because the state judicial system failed to enforce the rule of law”.
The last possible outcome would be when “formal rules and informal rules cooperate”. (Pejovich, S. 1999, p.171) Such scenario would Lauth (2000) define as „complementary“ informal institutions and March and Olsen (1989) as the institutions which „filling the gap“ with formal ones and prime example could be inside bureaucratic type of the jobs when „facilitating the pursuit of individual goals within the formal institutional framework“ and making these formal institution much more „efficient“ with its “ myriad norms, routines, and operating procedures“. (Helmke and Levitsky 2004, p.728)
On the end we can point out that work and interaction of “the formal and the informal institutional constraints” created organizations as the tool of exchange which can fit both spectrums in return for equivalent compensation in the proportion of the solutions they resolve. (North, D.1990, p.8)

Hierarchy

Jütting (2003, p.12) explained classification by Williamson (2000, pp. 595-613) inside and between the formal institutions. He presents that classification “based on different hierarchical levels”. In the Table 1 stages of intuitions are not separated, but more “interconnected”. This system in Williamson (2000) representation works in that way that “the higher level imposes constraints on the lower level, and feed-back exists from the lower level to the higher level”.

Table 1: A Hierarchy Based Classification Scheme for Institutions

Level	Examples	Frequency of change	Effect
Institutions related to the social structure of the society (level 1)	Mainly informal institutions such as traditions, social norms, customs. Exogenous	Very long horizon (10^2 and 10^3 years) but may change also in times of shock/crisis.	Define the way a society conduct itself.
Institutions related to the rules of the game (level 2)	Mainly formal rules defining property rights and the judiciary system. Exogenous or endogenous	Long horizon (10 to 100 years).	Defines the overall institutional environment.
Institutions related to the play of the game (level 3)	Rules defining the governance private structure of a country and contractual relationships, e.g. business contracts, ordering. Endogenous	Mid-term horizon (1 to 10 years).	Leads to the building of organisations.
Institutions related to allocation mechanism (level 4)	Rules related to resource allocation, e.g. capital flow controls; trade flow regimes; social security systems. Endogenous	Short term horizon and continuous.	Adjustment to prices and outputs, incentive alignments.

Sources: Jütting (2003, p.12) presentation based on Williamson (2000, pp. 595-613)

Jütting (2003) interpreted this by saying that intuitions at Level 1 are mostly social norms which are predominantly informal. Importance of this level can be seen in developing countries, where some aspects from level (II–IV) like juridical systems, capital flow or political regimes are not fully developed or used at fullest capacity. Resistance of these institutions is very high, so the change during some economic shocks is very slow and the purpose is for "society to regulate itself". (p.13) In general all transactions made on such levels are constructed on "beliefs and identities". (p.13) Not appreciating some values, traditions can bring behavior in society which would lead to "economic and social sanction". (p.13)

He continues with Level 2 by relating institutions with "rules of the game". Specific thing about this level that these formal institutions are based on informal institutions. Jütting (2003) gave example of "rules governing access to natural resources that are not written down but are quite strongly binding and therefore fit under this umbrella". (p.13) Importance of this level lies also in the "way the game is played" in the sense how certain property rights have been enforced. (p.13)

Institutions in the Level 3 are more like "decision factors" whose purpose is to modify incentives of "governance structures of a society and leading to the building of specific organizations like the local or national government, state agencies, NGOs" (p.13) The last (Level 4) of classification are institutions which are very adaptable, and whose impact is made through the "process or quantities" and by that change they influence "resource allocation mechanism".(p.13)

Such classification gives better understanding of the connectivity and influence which can occur on different hierarchical levels and general institutional change trough the time with visible outcomes.

Area of analysis

Formal **economic institutions** described by Leftwich & Sen (2010, p.17) according Wiggins, S. and Davis, J. (2006) are the ones which "define and protect property rights, determine the ease or difficulty and length of time it takes to start a business, facilitate exchange and promote and regulate organized coordination and competition". On the other side there are economic institutions which pay attention to working standards, and with their work they influence the economy. Generally, they can restrict or support the economic behavior, and by doing so positively or negatively influence the outcome. In many cases such outcomes are by-products of the "interaction between economic institutions with political and social ones". (p.17)

Political Institution by Jütting (2003, p.14) is seen as in the work of (Beck et al., 2002) as "variables that provide details about elections, electoral rules, type of political system, party composition of the opposition and the government, measures of checks and balances and political stability". It is important to mention that these institutions have right to monitor "how power is obtained, used and controlled, and by whom and how authoritative decisions are made (and not only at the level of the state)". (Leftwich & Sen, 2010, p.17)

Leftwich & Sen (2010) shared opinion that *social institutions* representing these formal institutions whose job is to balance public behavior, which internally is made of informal institutions like culture. That culture shapes the way how social groups organize themselves from various individuals who interact. These intercommunions have been conveyed from one person to the other and have capability to be sum up individuals of different age and gender. (p.18) What we can also understand under the term culture is "transmission from one generation to the next, via teaching and imitation, of knowledge, values, and other factors that influence behavior". (Boyd and Richerson, 1985, p. 2) So the generation of the people and their institutions are shaped due to many external and internal factors what we generally could see.(Jütting (2003), Williamson (2000)) Some authors like Daron Acemoglu and James A. Robinson in their book "Why Nations Fail" go even deeper in this thematic.

A good example of how empowering of one type of institutions can increase the value of others, and together create better life for the people. Such example can be seen in the American history when the certain institutional basis "(the Constitution and the Northwest Ordinance)" on one side and positive norms on the other, motivate the creation of wide spectrum of organizations like:

"congress, family farms, shipping firms." These organization generated the economic surplus which led to opportunity for financing public schools and need for higher education. This wave of accumulated knowledge gave its payoff in the way which allowed these organizations to grow even more efficient and profitable. Social constrains in the 19th century also started to change with economic evolution. Not all the money was made on trust and goodwill, but on slavery as well. Through time and better education this also changed. (North, D.1990, pp.8-9)

In modern times, situation is quite opposite. The political and economic framework of 3rd world countries is focused on "redistributive rather than productive activity that creates monopolies rather than competitive conditions." Organizations which develop in such institutional circumstances will just support this idea which will lead society, their institutions and themselves to less efficient future reality. So, these relationships are "mixed bags" of good and bad intentions. Creation of the institutions is not an easy job for any society and it should pay attention to its strategies, values and intentions. (North, D.1990, p.9)

2.2 Institutional Environment

From the book of L. E. Davis and Douglass C. North called „*Institutional Change and American Economic Growth"* from 1971, the importance of institutional environment is clearly stated, which for them represents "a set of fundamental political, social and legal rules, which form the basis of production, exchange and distribution". (p.6)

Such rules that describe the election system, property and contractual rights, represents much higher and wider level of institutional outline. That scheme represents the basis of future institutional construct of the society. Taking that into consideration, institutional environment can be described as a detailed socio-economic field inside where diverse institutional arrangements are interacting like market transactions or organizations. (Nemanja J. Gligorijević, (2014), „*Institutional Changes in Function of Improving Efficiency of the Economy"*, p.49).

As we could see from the above, it comes to one fact that most of the scholars can agree on and that is: the society we are living is shaped by formal and informal institutions which enable the interactions of the people behavior in "a world of uncertainty and incomplete knowledge". Indications of such view in economic analysis are: "*(1) the rules matter, and (2) changes in the rules change the way the game is played"*. (Pejovich, S. 1999, p.165)

In the empirical research article "*Does institutional environment affect the economic development? Evidence from selected CEE countries*" written by Lejla Terzić in 2017 through the several methodological approaches the relationship between economic and institutional environment has been tested. (p.19) She started by listing how some experts moved from one point to the other where „institutions, geography and openness to trade“ are „three variables of economic development“, adding the importance to the correlation of „institutional environment and geography“ like Acemoglu et al., (2005) and Presbitero (2006). (p.20) In her point of view, some would express assessment of intuitional environment throughout „property rights index, corruption perception index, business freedom index and alternative institutional determinants“ which can at the end of the day have big impact on country’s economic status. (p.20)

Additionally, L. E. Davis, Douglass C. North and Calla Smorodin (1971), would add that certain type of intentional external and innovative act takes place in one institutional environment, it will probably not have the same „innovative response“, if the same intentional act would take place in different institutional environment and time.(p.64) Also they made it clear that we should take „institutional arrangement“ as construct which is closest to the term „institution“, whose purpose is to create surrounding at it will enable its participants to interact beneficially in the way which would not be possible outside of it. On top of that, it’s behaving methodology could be used as the tool to influence transformation of „the laws or property rights “modelled in the manner that can potentiate the streams for actors(groups) to „legally compete“. (p.7)

Nevertheless Nemanja J. Gligorijević, (2014), reminds what North (1990), leaning on the arguments of Lachman L.(1971) said, that we should distinguish the institutional environment from institutional arrangement. Their splitting points come as personification of the surface and levels affected by the interaction between „internal and external institutions“. Therefore „institutional environment or "external" institutions represent a set of basic rules of behaviour, institutional arrangements, or "internal" institutions, represent organizational structures, established within those basic rules“. (p.52)

3 Strategy of the Companies (Organizations)

According to Cambridge Dictionary, „strategy" as word represents "*a detailed plan for achieving success in situations such as war, politics, business, industry, or sport, or the skill of planning for such situations*".(Official website of Cambridge Dictionary) Bearing this in our mind we can see that this term strategy is used in so many ways, levels and meanings therefore it raises importance and value to its finest.Many experts in this field have their own point of view of what strategy of the company means for them. For example in the book „*Strategic Planning* „ from 1979 of George Steiner he sees it as the process in which top managers have the major decision making in which they evaluate „the chain of cause and effect consequences" possibly happening in the near future. By doing so managers are aware of chances and possible misleading with help of other meaningful data they will make decision on:

1. "**Planning** means designing a desired future and identifying ways to bring it about?"(p.13)
2. The **process** in which they are defining the goal, outline the strategies, than detail methodology how this strategy will be applied and policies which will be followed along the way. In that process the following will be taken into account: When, Who, How, and what effect will have as the result in the end?
3. **Philosophy** as the idea or state of mind of all people while taking the part of execution of their work in the best possible strategic planned way and believing in it. (p.14) He stated that formal strategic planning system represents connection of three major plans: "strategic plans, medium-range programs, and short-range budgets and operating plans."(p.15)

Similar but not fully, strategy for Henry Mintzberg in his book "*The Rise and Fall of Strategic Planning"* from 1994, had different significance for him in the way that managers should separate "strategic planning" from "strategic thinking" in the way that "the most successful strategies are **visions**, not plans".(p.107) Strategy from his point of view can "emerge" as the "**pattern**" through the process of learning and doing, and by so "the real strategies are built from the occasional nuggets they uncover."(p.111) While the organization is doing it, **positioning** itself at the market so "namely the determination of particular products in particular markets",(p.27) and the term **ploy** also used by Mintzberg as "specific maneuver intended to outwit an opponent or competitor" which signifies strategy to a certain extent.(p.29)

Another Harvard professor Michael Porter in his book *„Competitive Strategy*" from 1980 he presented the structure of "analytical techniques" whose job is to give the answers to the company of the industry they are a part of, and to forecast the development of upcoming events inside that industry, together with "understanding its competitors and its own position" in that surrounding, transforming that examination into "competitive strategy for a particular business."(p.xxii) So we can see here that Porter put great emphasis on the environment in which company operates, and therefore "competitive strategy is developing a broad formula for **how a business is going to compete**, what its goals should be, and what policies will be needed to carry out those goals."(p.xxiv)

3.1 Approaches of the Strategy

Big step forward in the concept of what strategy is made of, Richard Whittington in his 2nd edition of "*What is Strategy-and does it matter*?" from 2001, wants to show the approaches of how processes are made around certain strategies, divides these approaches into four major aspects:

The Classical approach of Whittington (2001) is widely influenced by the works of Alfred Chandler (1962), Igor Ansoff (1965) and Alfred Sloan (1963) where they placed the basis for "rational analysis", making clear difference between creating the story and real implementation, and big tendency toward "profit maximization". (p.11) One of the points of this approach is to make a clear plan with analysis for "building organizational structure" created from top management by having "strategic responsibilities" in the long term.(p.13) According to Chandler (1962), top managers should have full power over "the destiny of the whole enterprise" and should be clearly distinguished from jobs of divisional and operation managers.(p.309)

Second or the *Evolutionary approach* is what we can assume from its name that it is a principle in which surrounding dictates (not so much managers) who will overcome the external obstacles, with "many different small initiatives" and along the way to find out which differentiated strategy is the most efficient. (p.21) As the Oliver Williamson (1991) would advocate that "economy is the real strategy" and that managers should keep in mind "transactional cost".(p.87)

In the *Processual approach* to strategy it is important for managers to be aware of their "cognitive limitation" pointed out from Mintzberg (1987; 1994) during the process of creation of the strategic vision, so it gives a possible gap for the pragmaticality and compromise which emerged along with of "micro-politics of organization" developed by Andrew Pettigrew (1973; 1985) so the best course of actions can be seen with hindsight and cannot be planed so much. (Whittington, R. 2001, p.21) As Whittington (2001, p.27) would describe the story of the map as a metaphor for "strategic planning" created from Weick (1990) about lost solder in the Alps during the winter with a wrong map, where he believed that the map is right, consolidate his thoughts and take action accordingly for "making own opportunities", and by doing so he came safe back to camp. The moral of the approach is "hands get dirty, steps are small and there few bold lunges into unknown long term", but this sluggish advancement should not have a discouraging effect on the strategy they have in

their mind. (Whittington, R. 2001, p.23) So the focus in strategy of every company should come “from long term construction and consideration of distinctive internal competences”, rather than “the fluid externally oriented pursuit of opportunity”.(p.25)
In the last *Systematic approach* strategy is presented as connection to more “sociological context”, rooted in-between social and economic systems which can vary under the impact of concept like culture, mental perception of rationality, inside numerous “professions, nations..families and genders”.(pp.26-27) Furthermore, similar philosophy share many multinational companies by attempting to bring their lifestyle with their products in new markets. (p.28)

3.2 Competitive Strategies – Definitions, Paradigms and Implementation

In order to better understand upcoming ideas, aspects, paradigms and tools it would be good to point out some terms which will continue to circulate through the whole chapter.
Competitive strategy according to Michael Porter in his book „*What is Strategy*?“ from 1996 represents constantly “choosing different set of activities to deliver a unique set of values” from its competitors. (p.64) It represents the work which a company has to pursue, in manner (”means”) they think is the best, in order to reach the goal for higher profitability. (Porter, M. 1980, p.xxiv) That plan is made out of points like “analyse of competitors, buyers and supplier’s” moves and theirs possible expenditures in different “types of industry environments”, which should help company to valorise on difference in the capability, straights and opportunities. (Porter, M. 1980, p.xxii)
Again Michael Porter explained in his book “*Competitive advantage”* from 1985 that it represents “the value” that company is capable of creating in the eyes of its buyers, which for company leaves enough profit after producing it. The value created for consumers comes also from capability to give smaller price than competitors or to provide “unique benefits”, which again with its worth justifies higher price. (p.3) Competitive advantage does not come just from its methodology of execution but also the synchronization and grouping of individual excellence between the activities which make certain strategy even more effective. (Porter, M. 1996, p.45) By doing so, it makes it hard for competitors to replicate that sustainable “system of activities”. (p.48) For others like Collis and Montgomery in their work “*Competing on resources: Strategy in the 1990s*” from 1995 clarified, that competitive advantage of some firm lies down in the possession of “valuable resources” that gives chance at market capability to accomplish actions in efficient or more economical way.(Offical website of Harvard Business Review (2022)

What is Competence?

Definition of the term *Core competence* Ann C. Mooney defined in his article "*Core Competence, Distinctive Competence, and Competitive Advantage: What is the Difference?*" in 2010 as "central to a firm's value-generating activities". (p.111) Furthermore distinctive competence should be reasonably recognizable in the eyes of the consumers while enduring the pressure of the time and competitors, making for them difficult to copy that activity. (p.111) Distinctive competence does not always bring the competitive advantage, but in order to so, competitive advantage has to make positive difference compared to worthy adversaries. (p.114)

There are different directions of affection inside creation of one strategy by having diverse activities in the value chain, and keeping that in the mind, managers should ask: What/ When will the company use certain activity? How will that activity work and is it going to create the value for the customer? In the end, how that activity will affect other activity in the value chain? Optimal synchronization makes good *strategic fit* of activities that, as the result, create even greater competitive advantage in the long run. (Porter, M. 1996, pp.45-46)

Before we continue with more theories at more firm level, it is important to point out that there are *competitive advantages at the country level.* In the process of globalisation competitive industry plays the most vital role, taken into account every level of economic development: "developed, undeveloped, and in transition". (Veselinović P. & Despotoić D. 2008, p. Introduction) From Veselinović and Despotović (2008) perspective developing or "transitioning" economies have two dimensions:

1. "*The inheritance and existing state of reached level of marketability of the entire economy,*
2. *Creative spirit, which is present in some industry and it is rationally ready to take risks and responsibilities for succeeded results.*" (Veselinović, P. & Despotoić, D. 2008, p. Introduction).

On the other hand, Michael Porter in his book "*On Competition*" from 1998, "*national competiveness*" sees as the "mix of microeconomic phenomena". (p.158) At first, he took into consideration general economic generators from other theorists like: "cheap and abundant labour", "natural resources", "governmental policies (targeting, protection, subsidies)" and the last widespread in his opinion is "management practice (relation management- labour)". All these positive (cheap labour is not that positive) economic competitive initiators have been additionally influenced by holdbacks like "exchange rates, interest rates and government deficit", but even with or without it, one could never reach awaited full national competitiveness, so there should be more determinates.(pp.158-160) Porter (1998) continued by stating that "productivity" or "the value of output produced by unit of labour or capital" upon which one country is able to build and from

which its citizens and workers will live well on, is something what makes significant construct of national competitiveness. Productivity is mostly composed out of “quality and features “which rise the level of the price at which product can be praised and “efficiency “at which they can be made of. (p.160). It is also important for countries to pay attention to international trade when it comes to stepping in some international deals and organisations, and on foreign investments, because these factors can increase productivity or minify it. (p.160)
In the “new theory” how Porter (1998) would describe it, it should be asked “Why do some companies based in some nations innovate more than others?” and “Why do some nations provide an environment an environment that enables companies to improve and innovate faster than foreign rivals? “ (p.162). So we can see that “innovation” is characterized as the gravitation centre of competitive advantage toward each companies is craving for. The broad method in which Porter (1998) divided it, are “new technology” and “new way of doing things”. In addition to that the focus can be “new market opportunity” or “serving other market segment” that competition did not put emphasis on. (p.163) The last additional question, from previous two, that will have good basis for “The Diamond of National Advantage” is “Why are they able to overcome the substantial barriers to change and innovation that so often accompany the success?” (p.166)

The Diamond of National Advantage

There are four broad attributes of a nation, which separately or jointly can represent synchronized driving forces of competitive advantages which can be emerge and activate to make every industry better: (Porter, M. 1998, p.166)

> “**Factor Condition**: The nation’s position in factors of production necessary to compete in given industry“. (p.166) The factors that Porter (1988) was referring to: “skilled human resources” ,with “high specialized factor”, who work on the territory which can be full of “natural resources”, and the level of “capital” and “ infrastructure” can propel industry with constant “innovation and upgrade”. (pp.172-173)
>
> “**Demand Condition**”: It represents the domestic atmosphere in which home demand’s needs for “sophisticated” and specialized products faster meet “demanding buyers” needs and wants, motivating them to be more creative when it comes to products and services comparing to foreign competitors. The determents of these conditions which empowers competitive advantage additionally “when particular industry segment is large or visible “that can be shared beyond the national borders. (pp.174-175)

"**Related and Supporting Industries**": When inside one national economy there are internationally recognized companies in related or supporting industries, than it makes such surrounding more supportive for other domestic companies to be competitive internationally. Together they improve "downstream" relationships and by doing so "communication line is much shorter", information processing is easier and therefore implementation is highly efficient in "preferential way". Having this relation in the domestic market, can pave the international way for one of the companies which is from a supporting industry. (pp.176-178)

"**Firm Strategy, Structure and Rivalry**": The comprehensive conditions in one domestic economy or industry determinates foundation of the structure, management and guidance of the company as well as the "nature of domestic rivalry". (pp.166) The ideas and goals, the company wants to present and reach, are the representations of individualities of "national capital markets and compensation practices for the managers". National competitive advantage comes also from talented highly-educated individuals who have focused their work ethic in some industry, on the activities which either they "admire or depend on". (Porter, M. 1998, p.179)

Industry clusters on the other side, are groupings which in national markets are mostly made out of "diamonds", rather than just made from one competitive industry. Most clusters are formed "geographically" and interconnection of the competitive industries happens on "vertical" and "horizontal" relationships inside economy. (p.183). By having this synthesized form inside one cluster, all industries are benefiting by moving in mutually positive transformation. Along the line, rivalry starts to become more tested inside one cluster by the "spin-offs, exercise of bargaining power, and through diversification by established companies", with additional injections from other industries it sparks the inner transformation of strategies and construction, more overly it is shaped by "diversification in R&D". (Porter, M. 1998, p.184)

Affection on the government has always been the story of continuous debate, on whether the government should with its "employment of host policies" work as donor for competitiveness in some "strategic or target industry", or should its job be to let market do its own work in the "free market" aspect. (Porter, M. 1998, p.184) Both views have concerns, one side thinks that enforcing policies which do the favour for certain industries would actually do harm and make them somewhat lazy over time, and the other side thinks, being silent observer and not major artist whose job is to shape the way of behaving inside "institutional structure" and direction in which companies will be able to create competitive advantage, it is also not surrounding where companies would like to operate. (p.184) So the truth is somewhere in between or in the balance. For Porter

(1998) job of the government is to be "catalyst and challenger", whose methods sometimes could be not that pleasant, in terms of change of strategy, structure or goal of the companies, but "government cannot create competitive industries; only companies can do it".(p.184) While pursuing these intentions, governmental should be aware of its "diamond" and use its potentials through the policies accordingly, in the manner of creating "conditions" which for the companies will be much more convenient to craft competitive advantage, and not "directly" to be helped from the government (except in the nation's initial stages of growth procedure). (p.185) This can practically be done by implementing "early demand" for sophisticated products with the reasonable offer with the help through the projects, along the side endorsing the polices that lead to ethical use of the "diamond" and getting reward and acknowledgement for a managed quality. (p.185) This process takes long time where "competitive time for companies and political time for government,, should be in coherent state of willingness to use its resources for better future in terms of "upgrading human skills, investing products and process, building clusters, and penetrating to foreign markets".(p.185) So politicians should be patient during this process and not to fall on "short term benefits such as subsidies, protectionism and arranged mergers" ,but more on long term process which sometimes can be uncomfortable and would "encourage change" to innovation inside promoted competitive industries. (pp.185-186)

3.3 Analysis of External Environment of Organization

In order to come up with good strategy, there is long process on its path of many holdbacks, assistances that shape your "strategic planning and strategic decision making", and these strong conditions comes from your " micro-operational" and "macro-general" external environment. (Stanković, J. & Djokovic, F. (2019) "*Strategijski menadžment*", p.55) These environments with their segments and their directions of influence, can be seen in the next *Figure 2*.

Figure 2: The Internal Environment, micro-environment and macro-environment

Sources: Lappeman, James, Paul Egan, Gillian Rightford, and Thabang Ramogase. (2021) „*Marketing to South African Consumers*" p.56

Need for analysing the external environment comes from the idea that broad aspects of things like technology, international factors, society and country specification represent the stirred up water in which an organization floats. In order to come up with short term and long term solutions companies need to do "monitoring, controlling and trend following" of external environment so they can use the right opportunities and moments so they can position themselves in markets, but the good evaluation of the expectation of changing events would bring them capability to adapt and to reposition themselves accordingly. (Stanković, J. & Djokovic, F. 2019, p.51) Evaluation of external environment could go on a smaller level and have narrow range, in that sphere the company should be aware of balance between entrance of new competitors at that market and intensity of the change they bring on one side, and demand's specification of its consumers on the other. (pp.51-52) In the last couple of the years we are conscious of a perception in which macro environment is truly unpredictable, especially during health issues, therefore becomes hard for companies to assume the future by analysing the constellation of the forces, so they can implement their marketing positioning. (pp.55-56)

3.3.1 Analysis of Macro Environment of the Company

Macro environment has, for the most of the companies, the meaning of a situation in which forces come from international and national markets, these impacts could be seen in the form of "political, economic, social, technical-technological, legal and the biological characters", that it does not just influence the company but their own competitors in the more "mediate way". (Stanković, J. & Djokovic, F. 2019, p.55) One of the ways to analyse the macro- environment is through PESTLE analysis, whose visual representation can be seen in *Figure 3*.

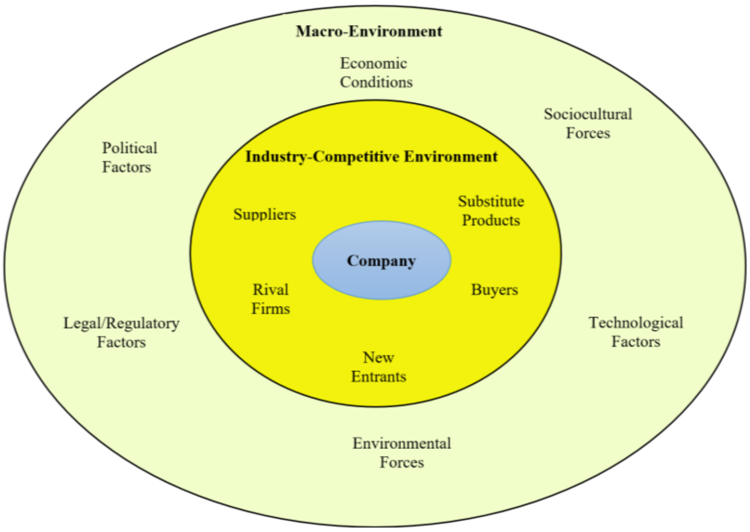

Figure 3: The Components of Company's External Environment According to John E. Gamble - PESTEL Analysis

Sources: John E. Gamble (2016), "Essentials of strategic management: the quest for competitive advantage", p.38.

Political Factors are the inheritors of the impact of governmental institutions, and it is possible to see the way policies have been brought to life and the influence made on the economy of the country. The analysis of political factors starts by taking first the structure and the form of political governing, and afterwards the involvement of the government on the empowering certain industries with organized capacity of different institutions. The work of these institutions can be seen by requesting the "minimum wage at governmental level", "the speed and quality of the transition process", additionally the way how government handles the working ethic of foreign companies and the determination how big subsidies they will get, control of the export and many more. (Stanković, J. & Djokovic, F. 2019, p.56) We already mentioned, with support of work of Porter (1998), how such governmental/political factors can make big shifts in some industries' strategies and simultaneously the competitiveness inside them. European Union represents one of the biggest examples how political environmental can make “the merging among organizations in different national economies”. (Stanković, J. & Djokovic, F. 2019, p.57)

Economic conditions represent the general wellbeing of the country and they could work as the domino effect when some parameters go up or down and theirs implications could have positive or negative echoes in the life of the people and companies. Such crucial parameters are : ” interest rates, exchange rates, the inflation rate, the unemployment rate, the economic growth rate, trade deficit or surplus, savings rates and per capita domestic product“ and individually or in the groups can have huge impact on whole industries. (Gamble, J. 2016, p.39)

Scanning **Sociocultural forces** has never been an easy task since some of them could be changed in the matter of days and for some it takes hundreds of years. Social surrounding actually represents the environment in which political, economic process takes the place. There are sociocultural forces and factors which are easy to measure like a demography which consists of: “natural increase, age of the population, increase or decrease in the standard of living, educational level of the population, structure of households, geographical distribution of the population” and many more that they can have crucial importance for development and sustainability of some industries like agriculture. (Stanković, J. & Djokovic, F. 2019, p.58) On the other hand, there are forces and aspects which are more sophisticated and take more profound way of scanning and analysing to catch right proportion and significance like: “societal values, cultural factors and lifestyles” which can distinguish how some services have been delivered or what structure products have. (Gamble, J. 2016, p.39) Combination of these two broad looking segments of sociocultural forces, could moves “trends” that can make companies decide whether to continue with their products or production interest internationally. (Stanković, J. & Djokovic, F. 2019, p.58)

Technology factors mostly have been used as the synonyms for advanced transformation that would lead macro and micro environment one step forward, into future more capable to use “the genetic engineering and nanotechnology“ which really changed society. (Gamble, E. 2016, p.39) On a more understandable level technology in every day’s life takes place in our homes by possessing the personal computers and modern cars whose component is microchips. (Stanković, J. & Djokovic, F. 2019, p.58)

In the book “*Strategic management and business policy*” from 2002, Thomas L. Wheelen and David J. Hunger stated that researchers from George Washington University added a few “breakthrough developments in technology” that will have big influence on society and industries, and that some of them are: “Portable information devices and electronic networking”; “Fuel cells and alternative energy sources”; “Precision Farming“ (right seed for right soil, and efficient equipment); “Smart, mobile robots”. (p.54)

Legal and regulatory factors should create environment where rule of the law must be obeyed. Not all companies should pay attention to some laws and procedures, it depends what industry they are in and with what laws they have direct or indirect contact. Most used laws from any companies are “consumer laws, labour laws, antitrust law, and occupational health and safety regulations”. (Gamble, J. 2016, p.39)

Environmental forces have been more in the focus since the technological factors levelled up. Of course, these resources (“water, air, soil”) are part of the territory which companies exploit and not unfrequently do harm on ecological surrounding. Therefore society should be aware of the significance of nature and demand that industries be continuously socially responsible. (Stanković, J. & Djokovic, F. 2019, p.58) In recent years, worldwide organisations such as BRIC, NAFTA, EU or WTO have enormous power on external environment of course on global scale in terms of “trade and communications, growth of foreign exchange courses” and many more which should be also taken into consideration during the analyses. (Stanković, J. & Djokovic, F. 2019, p.58)

3.3.2 Analysis of Micro Environment of the Company

The environment in micro perspective represents the environment in which organisation actually has the biggest impact and on which it depends the most. The power of this environment lies down in the extensity and intensity that “immediate inner ring industry and competitive environment” are capable to press on the companies surrounding which ultimately leads to “the biggest strategy shaping”. (Gamble, J. 2016, p.39)

3.3.2.1 Porter’s 5 Competitive Forces plus One

As the part of “structural features of industries”, competitive environment symbolizes battlefield on which all companies’ competitive strategies are trying to outwit each other along the industries’ “rules of the game”, by positioning self in the way that influence the industries’ constellation of forces in its favor, so that they can in “long run return on invested capital”. (Porter, M. 1980, pp.3-4) These “five basic competitive forces” regulate the pressure with which companies need to cope and that can be done by understanding the source of the competitive power and also the weakness of every force. Gained knowledge from these analyses should help companies, to recognize their own “critical strengths and weaknesses” that will be used as the starting point in constructing upgraded and more suitable competitive strategy. (pp. 3-4)

Threat of new entrants represents a potential competition which are willing to take the part in “free market” and to earn greater rate of return than the rate that market is offering them. (Porter,

M. 1980, p.5) The rate or return it is not the only thing which new entrants are striving for but also power at market by bringing “new capacity” and “substantial resources”. (Wheelen, T. & Hunger, D. 2002, p.61) The new entrants will be capable to penetrate and to establish themselves at new market comes from two opposite broad resistance powers like “entry barrier” and “reaction” which will be initiated from the present competitors inside some industry. (p.61) The barriers of entry could have different level of resisting power toward new entrants, the “high” or “low” and it could be separated in the “**six major sources**”. (Porter, M. 1980, p.7)

1. **Economies of scale** according to M. Porter (1980) “*refer to declines in unit costs of a product (or operation or function that goes into producing a product) as the absolute volume per period increases*”. (p.7). Therefore, the new company needs to adapt its resources and strategy in order to compete with current competitors’ level of number of products-price relations, using “large scale” or “small scale” tactics with each of them pulls different market reactions and possible profit or losses. (p7) It is important to point out that “diversification” and “sharing of operations and functions” could give a lot of benefits in terms of “volume constrains”.(p.8) Additionally the bar could be raised higher by using “intangible asset such as brand names and know-how” especially with the combination of “vertical integration” from present competitors at market, that would be very hard for new companies to start its progression.(p.9)
2. **Product differentiation** plays significant role in many industries especially in modern time where marketing research, advertising, customer loyalty and many other things which will help newcomer to show their product differentiation in such a way that will attract new customers. For start-ups this process of product adaptation for the customers at new market by the process of differentiation could be very costly and risky. (Porter, M. 1980, p.9) Therefore some companies like Procter & Gamble secure their position by placing their “high entry barriers” with strong marketing strategy. (Wheelen, T. & Hunger, D. 2002, p.61)
3. **Capital requirements** represents all the major cost for the company that is willing to enter a new market, such cost could include manufacturing facilities, inventory or “up-front advertisement or research and development (R&D)”, as well as the “switching costs” as the costs created during adaptation of the workers on new machines or training for them. (Porter, M. 1980, pp.9-10)
4. “**Access to distribution channels**” can be very limited and occupied by existing competitors, which is also one the reason why barriers could be set up aloft. (Porter, M. 1980, pp.9-10)

5. **Cost disadvantages independent of scale** could be aspects of the company which can be very hard to replicate like “know-how”, rare access to the raw materials, “favorable location”, “government subsidies” or experience gained through the years which can save a lot of money for company. (Porter, M. 1980, pp.11-12) These companies could be seen as real representative of the industry which work very hard to overpower or take the share of their market. (Wheelen, T. & Hunger, D. 2002, p.61)
6. **Government policies** can be a very strict and unchangeable dam for many companies who are willing to enter some industries. Governmental limiting power lies in many forms like giving necessary licensees, requesting certain standards especially in ecological domain or even forbidding some action which are not according to values and norms of that country. (Porter, M. 1980, p.13)

Intensity of rivalry among existing competitors, as the second force of Porter’s five forces analysis, which more or less describes the current force distribution with different competitive strategies on the market share they have influence on and on the one they would like to have impact. These competitive moves can vary from “price competition, advertising battles, product introductions” and they can make big shifts in the industry where some companies can profit and other can lose money by trying to adjust. (Porter, M. 1980, p.17) Some competitive “advertising battles” can motivate companies to try new ways of selling or creating their products so the by product is differentiation, which ultimately can lead to better off for whole industry.(p.17) There are also factors which modify this force in a distinct way and they are:

1. **Numerous or equally balanced number of competitors** is an important point when there a few and equal number of market share companies in the industry and they watch each other move, and if one slightly shifts and changes, others have to react in pretty much the same manner. On the other side, when there is one big company among many smaller companies, that company can be taken as the stability or “the judge” factor which can be used inside market “through the devices like price leadership”. (Porter, M. 1980, p.18)
2. **Slow industry growth** can create such atmosphere where competitors are doing all they can, in order to keep up with “market share game”. (Porter, M. 1980, p.18)
3. **High fixed or storage costs** make companies squeeze their expenses in creation or selling process, which are “relevant to value added”, making them in some industries very hard to ”fill capacity to break even”.(Porter, M. 1980, p.18)

4. **Lack of differentiation or switching costs** for customers who see “product as a commodity” need to make clear why their consumer behavior toward “particular seller” would change, and that is the moment where differentiation and switching cost play significant roles. (Porter, M. 1980, p.19)
5. **Capacity augmented in large increments** put companies in such a position that in order to keep economy of scale in general, it has to use its whole capacity of added production plants. In such strategy, “overcapacity and price cutting” could be seen as the side effects. (Porter, M. 1980, p.19)
6. **Diverse competitors** inside one industry have different business philosophies, objectives and structures which are more or less directed at each other and they can agree on "rules of the game” for everybody’s sake. More over smaller companies could be satisfied with some profit which for bigger companies would be impossible, so competition has its own areas of profitability. (Porter, M. 1980, p.19)
7. **High strategic stakes** do not come as desired for higher profit but as representation of the brand on the international scale as primary goal in which lot of resources need to be invested, so that in the second round payouts become much bigger. (Porter, M. 1980, p.20)
8. **High exit barriers** represent the barriers which keeps companies in the market game, even when their earnings are not positive as much they would like. Such barriers can vary from the “economic” aspect when companies in order to leave the market have to pay their workers, “strategic” where they have to pay attention to their reputation of their brand, “emotional” when people responsible in the company do not want to take an “economically justified exit decisions” which are in direct confrontation with their pride and self-respect. Sometimes “government restrictions” can help companies so they do not leave the industry and cause additional unemployment. (Porter, M. 1980, pp.20-21)

Threat of substitute products or services is something that is a part of current competitors and the newcomers, who are trying to give the customer sufficiently similar product or service for smaller or same amount of money, and by doing so it deprives their competitors of profit. Such a behavior of substitute companies can minimize the length of blooming time in some industry by giving the cap at which companies can make profit. On the other spectrum, these products can appear positively if they offer “price-performance tradeoff” and when they are used inside one industry “earning high profits”. (Porter, M. 1980, pp.23-24)

Bargaining power of buyers can be seen as capability to minimize prices, directly or indirectly to negotiate with companies to get "higher quality or more services", that all could lead to smaller earnings in the industries. (Porter, M. 1980, p.24) Their power can be elevated when some of the following aspects are fulfilled:

1. When the big size lots are bought from the seller, it can form a slop in the prices toward the fixed ones and buyers become valuable for the sellers, so importance in this case is mutual.
2. The more product is standard in its features, the more buyers are able to find substitute product if they have interests, and therefore they have more power.
3. The "switching costs" raise the moment sellers find it hard to change their marketing segment or target group, so they keep their portfolio for already formed buyers. (Porter, M. 1980, p.24)
4. "Changing suppliers costs very little" (Wheelen, T. & Hunger, D. 2002, p.63)
5. When the cost of buying certain products represents bigger portion of the costs for that buyer, than the buyer will look for cheaper alternative. (Wheelen, T. & Hunger, D. 2002, p.63)
6. Firms bargaining power can be practiced when they show interest toward buyer's industry by forming steps to "forward integration", and on the counter side buyers have power when they are part of SCM of "backward integration". (Porter, M. 1980, p.24)
7. Importance of the product for the buyer can make him less reactive to prices, so they can accept even higher prices. (Porter, M. 1980, p.25)
8. In the modern world with the help of the internet and instant information regarding the cost of the products, demand or other options at market, bargaining power of the buyers are much bigger, especially when they as retailers can influence end-users to buy more. (Porter, M. 1980, p.26)

Bargaining power of suppliers starts at the beginning of the value chain is it one of the crucial parts in the system of every customer who are buying their products or services. Two most common ways of having impact is to raise prices which repents the costs of the consumer, and the quality which they are willing to offer for that amount of money. Having such supply chain and therefore business power in industry, they can generally reduce the possibility for customers to earn more money after they acquire supplier's products or services. When buyers see the strengthening change in supplier's behaving regarding the prices, they tend to imitate and embrace the new power. (Porter, M. 1980, p.27) Supplier's power can grow with the help of following conditions:

1. In the situation when there are couple of big suppliers directing their products and services to the industry in which are many buyers, then there is much greater capability of forming prices and terms. (Porter, M. 1980, p.27)
2. The threat of substitute suppliers must not be necessary negative to the other suppliers, because others suppliers can focus on supplying big consumers, and not on smaller and singular ones. (Porter, M. 1980, p.27)
3. Having that in the mind, it works more or less the same for industries, on how many industries they supply and how big a market share they embrace for suppliers. (Porter, M. 1980, p.27)
4. Significance of buyer's purchase from the supplier could give a possibility to supplier to establish dominating position during negotiations. . (Porter, M. 1980, pp.27-28)
5. "Switching costs" or "differentiated" products of suppliers could narrow the options for the buyers to look for other supplier. (Porter, M. 1980, p.28)
6. In order to have better perception of who suppliers are, we should think of suppliers as valuable "labors" and their level or sub-internal organization can influence not just companies but also industries, especially when it comes to "scarce varieties of labor". (Porter, M. 1980, p.28)

Additional force in this analysis could be taken as "variety of shareholders groups" in which many of them are considered to be: "government", "local communities", "trade associations" and "complementors". (Wheelen, T. & Hunger, D. 2002, pp.63-74) Government in this case has the biggest impact since for some industries it represents the biggest buyers and suppliers. They are also dictating the power of the local and foreign companies by issuing them licenses or by offering them subsidies. Therefore during structural analysis government should be taken as the condition or even better environment which can influence all the mentioned 5 forces above, and that is the reason why companies should try to forecast future governmental aspects and behavior. (Porter, M. 1980, pp.28-29)

After managers have analysed all 5 plus one forces, they have a really good perspective in what environment their company is coexists, participates and competes. The next step would be to evaluate the strength of each of the forces and to try to see how that force create even greater competitive pressure when they are grouped all together, because all together give the best industry's picture. Being aware of this, companies can see to which extent these forces are grouped, and how that power can influence them by restricting companies to earn extra profit. (Gamble, J. 2016, p.51)

Alongside these forces there are also "**industry's driving forces**" which are additionally able to contour every industry sometimes in unpredictable and sometimes in predictable ways. And there are three steps how companies could analyse them: **firstly** by realizing what forces are present, **secondly** be aware if these forces are the ones which have power of influence to change something "individually or collectively", and **finally** what adjustment and appropriate strategy company needs to adopt in order to be resistant to upcoming "impact of the driving forces". (Gamble, J. 2016, p.52)

"**Identifying an industry's driving forces**" has never been easy, since many alterations inside industry could evolve from "competitive change" and "driving forces". (Gamble, J. 2016, p.52)

There we could start from "**change in an industry's long-term growth rate" when customers**' willingness to consume more cause existing companies to enlarge their existing capacities or new companies to access to the marker so they can make a bigger profit, which brings much more competition at that market. Motioned process could motivate companies to search for their "golden ticket" beyond regional or national borders, which shifts the world toward "**increasing globalization**" by satisfying international customers with their products or services or by forming cheaper production line in other country. With globalization and peoples constant migration "**change in who buys the product and how they use it**" in the sense, what suddenly people are putting more value into, what their process of decision making looks like before they make transaction and channels they use in order to buy that product or service? One of the crucial things, that can redirect the direction of industry is "**product innovation"** with its constant capability to introduce new stars of the market, that will force other competitors to differentiate in order not to lose the pace with the poetical profit generated "first-time buyers". That product innovation and higher profit margin in modern world would not be possible without "**technological change and manufacturing process innovation**", which allow product to look better, of higher quality at to be produced with far less money. For companies to be seen, recognized and desired in some industries it is necessary to develop "**marketing innovation**" that again makes clear distinction between them and their competitors. By "**entry or exit of major firms**" inside one or more industries could make reshape the powers at that competitive level. Today, life is formed on information sharing and with information sharing comes also "**diffusion of technical know-how across more companies and more countries**", and competitive advantage of the companies' that lose such information, lose their capability to be competitive and adjustable at the market. If it happens that major competitors optimize their production that makes "**changes in cost and**

efficiency" so significant that buyers are able to buy product at much lower prices. We mentioned that certain industries or even companies have capability of "**growing buyer preferences for differentiated or…standardized products**" and therefore competitors have to be wise at that moment to weigh out which competitive strategy to use on their products so they can profitably compete. Above all these driving forces "**government regulatory actions**" is the one which can suspend all good moves for some company or it can facilitate undeveloped ones, to such an extent that it could modify "industry practices and strategic approaches". In the end, people or buyers are the one who are dictating the atmosphere of industries with "**changing social concerns, attitudes and lifestyles**". So for J. Gable (2016) the "major determents" that could really make huge shifts inside industry are "not more than three or four" mentioned.(pp.52-54)

"**Assessing the impact of the industry driving forces** "should be done in the manner that it will be distinctly clear for the company what individual driving force can make the impact on the industry that would make it easier for company to invest in certain industry or project or not, even when they seems to be grouped, one can have more impact than the other and it can push the response in other direction. (Gamble, J. 2016, p.54)

Being aware of the driving forces and theirs impact, leaders in the **companies should tailor their strategies**, according to the modified industrial environment, on which they should hold between 12 and 35 months with possible adjustments and flexibility so they can properly prepare for most of the occasions. (Gamble, J. 2016, pp.54-55)

3.4 Internal Scanning - Organization Analysis

We started with analysing the environment on micro and macro level, and now we continue to clarify the importance of internal structure, capability and capacity organised with available resources inside one company. The relations of these components play important role in forming possible strategies which will be applied at the levels we talked about.

3.4.1 Resource Base View

Resource base view represents the view in which companies are trying to compete by having their internal focuses or resources. From Harvard Business Reviews of David J. Collis and Cynthia A. Montgomery (1995) "*Competing on Resources*" review from 2008, it is stated that in their point of view, there are no two identical companies on the market with the same "collections of physical and intangible assets and capabilities", therefore it is not possible to await "experiences,..skills, or..same organizational cultures" as parts of "strategic valuable resources".(p.142) And that is exactly what makes one company effective and efficient comparing to other companies. The "key resources" which make the "value prepositions", can be divided in a few categories:

1. "**Physical resources**: manufacturing facilities, buildings, machines and in recent years IT"
2. **Intangible Assets or "Intellectual resources**: brand, property knowledge, patents, customer base, partnership"
3. "**Human resources**: experienced scientist, skilled workforce"
4. "**Financial resources**: financial guaranties, lines of credit, stock option pull" (Osterwalder, A. & Pigneur Y. (2010), "*Business Model Generation*", p. 35)
5. „**Organisational Capability"** can be synergy of all the above that can be seen as:" company's routines, processes, and culture". (Harvard's Review. 2008, p.142)

For the resources to pass the test of time and rivalry sustainably for a longer period of time it should possess certain principles to a certain extent like: "it is hard to copy them, it depreciates slowly, appropriability, it cannot be easily substituted, it is better than competitor's similar resources" but is important to keep "invest" and "upgrade" valuable resources. (p.143)

Table 2: Essential Attributes of Core Competence, Distinctive Competence, and Competitive Advantage

Attribute	Concept		
	Core competence	Distinctive competence	Competitive advantage
Firm capability	√	√	
Central to value – generating activities	√		
Visible to customers		√	
Superior to competitors		√	
Hard to imitate		√	√
Valuable to the firm			√

Sources: Moonney, A. (2010), „*Core Competence, Distictive Competence,and Competitive Advantage: What is the Difference?,* p.112.

3.4.2 Value Chain

According to Michael E. Porter in his book "*Competitive Advantage: Creating and Sustain Superior Performance*" from 1985 in order to have better perception to what can create competitive advantage for some company, we should go deeper into investigating of the all parts of that company's value chain. That value chain consists of the activities taken in different stages like "designing, producing, marketing, delivering and supporting its product". Such activities can create "cost advantage" or "differentiation" advantage that can save the money or generate profit. (p.33)

With the **value chain** it is much easier in a more gradual and detailed way to analyse each step of activities taken from acquiring raw materials until selling final product to the costumer and getting the feedback from the customers. These activities should be listed as well as their importance and interaction inside company's value chain or the "value chain of the suppliers" or the "buyer's value chain". So the company's supply chain should be well integrated mediator between these two chains or the "overall value system" so it can "gain and sustain competitive advantage", which can be seen in Figure 4. (Porter, M. 1985, pp.33-34)

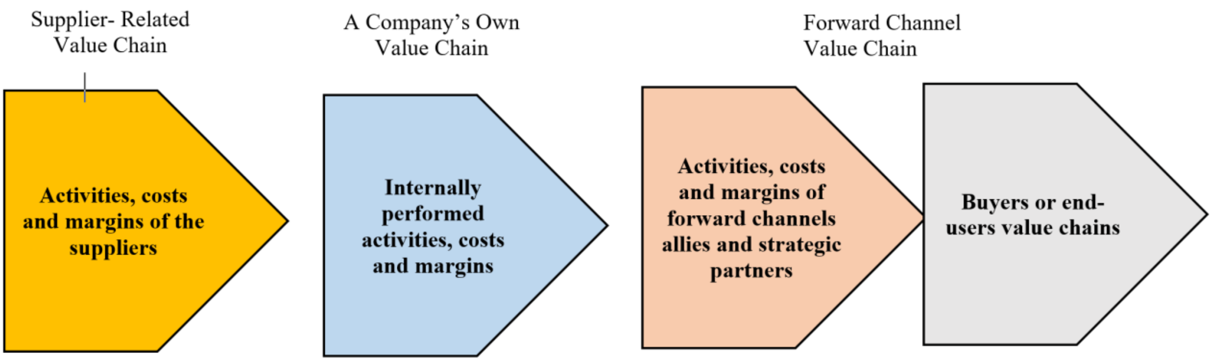

Figure 4: Representative Value Chain for an Entire Industry

Source: John J. Gamble (2016), "*Essentials of strategic management: the quest for competitive advantage*", p.78, based in the part on the single-industry value

Focus of the value chain on which company wants to make the biggest benefit represents the "competitive scope" that comes as well used competitive advantage. It can come from the willingness to focus on just one region and to specify your products in such a way that competitors cannot outdo you or by combining necessary supply chains of other firms that will lead to mutual improvement of you and partner's scope, by having more efficient product life cycle. (Porter, M. 1985, p. 34)

In the 6th edition of the book "*Supply Chain Management: Strategy, Planning, and Operation*" of Sunil Chopra and Peter Meindl from 2016, they added the a new view in which we can understand how the processes inside the company unfolded "within and between different stages" and they called it "**Process view**".(p.20) These processes could be followed in two ways:

1. **“Cycle view**: The processes in a supply chain are divided into a series of cycles, each performed at the interface between two successive stages of the supply chain". (p.20) Inside every cycle, there are “subprocesses” which even more precisely describe the stage in which activities are taking place inside that cycle. Every supply chain could have different composition of cycles and these cycles could have “six different” of the subprocesses. (p.20) The “supply chain operations reference” model or SCOR gives possibility to explain SC interaction, a better representation of interconnection of these processes, and a group of parameters to gauge the effectiveness of the performance.(p.21) Graphical representation of these processes could be seen in Figure 5. and Figure 6.
2. **“Push/Pull View”**: The process of supply chain in which the timing of order and expectation of the order creating are distinguished. “Pull processes are initiated by a customer order, whereas push processes are initiated and performed in anticipation of customer orders". (p.20) So basically with pull, firm starts its impulse of product creation, while push is a more calculated “forecast” of what demand will probably be from the company so it may prepare for that demand. Push processes are mostly used in unstable environment and pull are in environment in which demand from the customers are much reliable. (p.22) Importance of this view for SC of some company to give better understandings of what impulses are creating the starting motion inside and where is that major breaking point which will help to optimize supply and demand. (p.24)

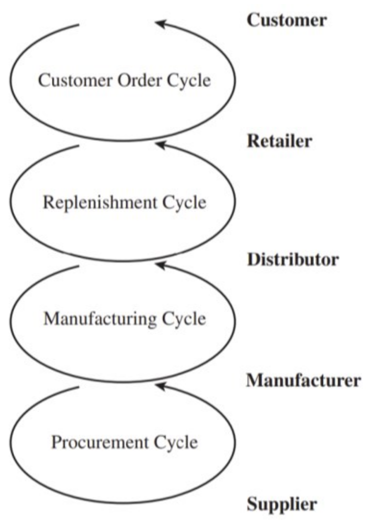

Figure 5: Supply Chain Process Cycles

Sources: Chopra, S. & Meindl, P. (2016), “*Supply Chain Management: Strategy, Planning, and Operation*”, p.20.

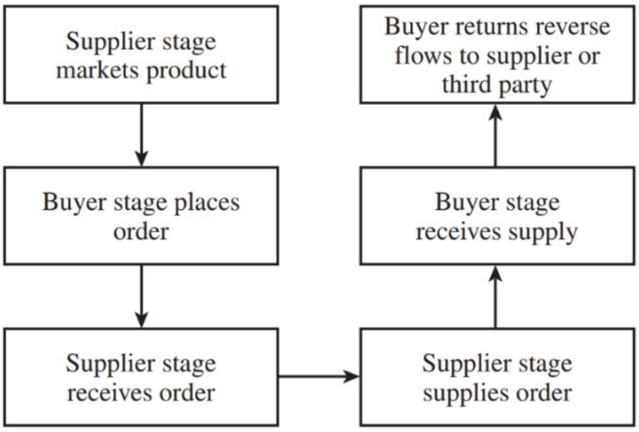

Figure 6: Subprocesses in Each Supply Chain Process Cycle

Sources: Chopra, S. & Meindl, P. (2016), "*Supply Chain Management: Strategy, Planning, and Operation*", p.21.

Structurally looking according to Porter (1985) "*every firm's value chain is composed of nine generic categories of activities which are linked together in characteristic way*". Better graphic representation of how these activities are doing their part of the job inside value chain could be seen on "the generic chain", see on Figure 5. (p34) It pervades all supply chains, not just of the company's activities but also "its suppliers, channels, buyers'" and so collectively with internal correlation they can influence competitive advantage. Therefore it is great toll to point out "relative cost position, differentiation and role of competitive scope" in making efficient, effective and profitable difference compare to competitors. (p.36)

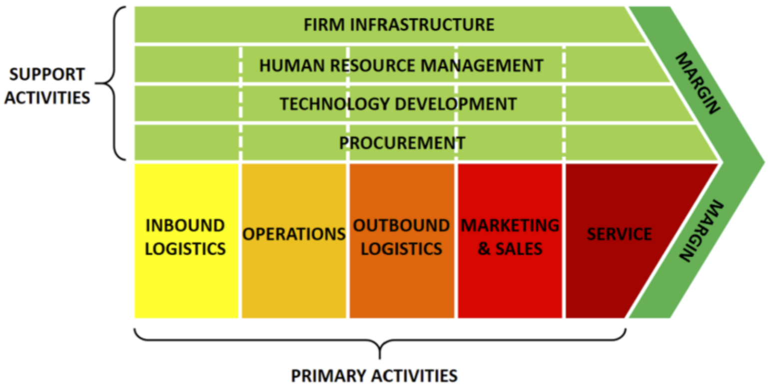

Figure 7: Porter's Generic Chain

Source: Official website of Business to you (2023), "*Value Chain Analysis: An Internal Assessment of Competitive Advantage",* Available at: https://www.business-to-you.com/value-chain/, based on representation of the generic chain in Michael E. Porter (1985), "Competitive Advantage: Creating and Sustain Superior Performance", p.37

So basically the net value or margin represents the difference between all collective costs of "**value activities**" and set price of the company for its customers. Customers' readiness to give out certain amount of money for that product should be the exact price or higher, and every company's objective for a strategy should be, to move as closely as possible to upper level of "value" which for customer that product is generating. As we could see on the Figure 5 there are significantly different groups of "value activities" and they are "**primary activities**" which are more specialized and driving technical forces of the company that includes supply of raw materials, "physical creation of the product", delivery to the customers as well as the afterlife of the product's service, where "**support activities**" enhance the primary ones, by allowing them to be more effectively and efficiently according to strategy implemented.(p.38) In order to know which value activity is suitable to which category it is necessary to "**identify value activaties**" and to distinctively separate them according to their importance in strategic view, costs they are creating and the technological or objective group of activity they share. (Porter, M. 1985, p. 39)

Primary Activities

1. "**Inbound Logistics:** Activities associated with the receiving, storing, and disseminating inputs to the product such a material handling, inventory control, vehicle scheduling, and returns to the supplier".(Porter, M. 1985, pp.39-40)
2. "**Operations**: Activities, costs, and assets associated with converting inputs into final product form (production, assembly, packaging, equipment maintenance, facilities, operations, quality assurance, environment protection)". (Gamble, J. 2016, p.74)
3. **"Outbound Logistics:** Activities associated with the collecting, storing, and physically distributing product to the buyer, such as finished goods warehousing, material handling, delivery vehicle operations, order processing, and scheduling".(Porter, M. 1985, p.40)
4. **"Sales and Marketing:** Activities associated with providing a means by which players can purchase the product and inducing them to do so, such as advertising, promotion, sales force, quoting, channel selection, channel relation, and pricing". (Porter, M. 1985, p.40)
5. "**Service:** Activities, cost, and assets associated with providing assistance to buyers, such as installation, spare parts delivery, maintenance and repair, technical assistance, buyer inquires, and complains". (Gamble, J. 2016, p.74)

Different companies have different interests and focuses in order to be as more competitive as possible in its industry, some of them like gastronomic enterprises are relying on "service", for financial corporation is important "marketing and sales" are a cornerstone. (Porter, M. 1985, p.40)

Supportive Activities

1. **"Procurement":** represents the "functions" and values added to each of them during the process of connecting the right suppliers for the right product, service, level of the company and with significant importance of the raw materials or any other type of inputs of the purchase procedure. (Porter, M. 1985, p.41)
2. **"Technology Development":** characterizes the wide range of activities, which could be part of the "know-how" or special equipment which involves different parts of the processing information, product creation or product transportations. As the higher level of technology imprinted in some product through the various stages of supply chain, the more value and significance that product has for the company and buyers, thitherto R&D are so important in the modern world and is taken as synonymous for technology. (Porter, M. 1985, pp.41-42)
3. **"Human Resource Management":** nearly every company consists of the human working force, therefore it is vital part of every value chain in terms who you will hire, how you will do it, what you will offer, how you will shape that newcomers according to your needs and what do you await from them in terms of the added value to your product? (Porter, M. 1985, pp.42-43)
4. **"Firm Infrastructure":** could vary from company to the company because of the way company is set up, by being "corporation" or "self-contained". Mostly it wires all activities inside supply chain and major ones are: "general management, planning, finance, accounting, legal, government affairs". (Porter, M. 1985, p.43)

Drivers of supply chain performance shape the way how company can implement their competitive strategy, by finding right proportion between "responsiveness and efficiency" and it is made out of "logistical and cross-functional drivers" which are the following ones (Chopra, S. & Meindl, P. 2016, p.56):

1. **"Facility"**: is nothing else but location in which products can be either produced or managed in the form of inventory. With more facility comes responsiveness, increased number of possible products (produced capacity, variety and stored), smaller amount of money for transportation, come higher value added to the customers, but negative side of

it is rise of the costs so things like “utilization”, “ideal time”, “flow time efficiency” play here important role. (Chopra, S. & Meindl, P. 2016, pp.59-61)

2. **“Inventory”:** is the difference between supply and demand, by carefully defining the amount of the products needed to be produced in order to match economy of scale, increase responsiveness and accumulate enough of the stock for the big fluctuations in demand. Matching batching size of the raw materials can also can create saving cost in transportation and holding cost for that raw materials or finished products. Different time of the years or unpredictable occasions could like “seasonal inventory” or “safety inventory”, could determine the strategy mangers will use it and will make impact on parameters like “average inventory”, “fill rate”, “obsolete inventory” (Chopra, S. & Meindl, P. 2016, pp.61-63)
3. “**Transportation**”: nothing else than the bond which connects all stages inside SC. That is one of the drivers which could affect “responsiveness and efficiency”. The better organized method of transportation, the less money is needed for extra locations and cost which comes along. Creation of the network along the side of the type of vehicle according to the type of product you are selling with what amount and what value it brings, it can drastically improve profit to the companies. So managers should pay attention to things like avg. outbound and inbound transportation costs and “fraction transported by mode”. (Chopra, S. & Meindl, P. 2016, pp.56-65)
4. “**Information**”: could be taken as the fluid which goes to all stages that can reach transportation and other drivers. Mostly information is the synonym for “decision making” or “information technology” which can effectively modify every stage or driver in SC by making it more responsive or efficient. That can be done by gathering as much as information about your suppliers as possible, your capabilities, needs and wants of the buyers so you can optimally organize in the final product. We talked about “push and pull” and information plays major role either as initiated impulse as well as forecasting raw material. Managing, directing and assigning information give managers power to make that all possible, some additional technology in SCM industry like “Electronic data interchange (EDI)”, “Enterprise resource planning (ERP)”, “Radio frequency identification (RFID)” made available in recent years have been able to influence parameters like “Forecast horizon”, “Forecast error” and many more. (Chopra, S. & Meindl, P. 2016, pp.56-68)
5. “**Sourcing**”: in the SC, embodies the initial or final question of “who” will do which process. That question comes to two possibilities on whether company will do it internally or by outsourcing the capacity of other company. This decision can boost efficiency as well

as responsiveness, but outsourcing the 3rd party in the opinion of Chopra, S. & Meindl, P. (2016) should be only held if "total supply chain surplus" of the company is greater than when the company does it alone. That is the reason why "supplier selection" and "procurement" are the first two things which are on radar when it comes to sourcing. (Chopra, S. & Meindl, P. 2016, pp.57-69)

6. "**Pricing**": for the managers in some company it is the pinnacle of decision making, on how much money their product will need to be produced and according to that how high a price will be set for the customers. Having that in the mind, managers are aware of the impact which will initiate behaving of the potential customers by increased or prolonged demand, which depends on the pricing tactic and the image which they want to present to their customers. Some pricing tactics are: "Economies of Scale", "Everyday Low Pricing(EDLP)", "Menu Pricing", "High–Low Pricing". So pricing it is the final decision which managers should precisely determine because it encourages the grow of the "**Profit Margin**" which we **will talk about more when it comes to competitive strategies and Porters' generic chain**, as well as "Average sale price" and "Range of periodic sales". (Chopra, S. & Meindl, P. 2016, pp.57-71)

3.4.3 SWOT Analysis

One of the most used tools by mangers in any industry certainly is SWOT analysis that has the idea of giving understanding to the power division and their balance between the Strengths (S) and Weaknesses (W) which companies in itself possess and market Opportunities (O) which can they can use it in their favour while competing against potential Treaties (T) that also comes from immediate surroundings. Therefore strategy of the companies should be carefully tailored in the sense that not all the pushing power should be placed on the companies' strengths, but also partially strategic focus should be on weaknesses which could hold back companies when some market opportunities arise or even worse when additional treaties show up very competitively by seeking every crack in supply chain's and strategy's dam. (Gamble, J. 2016, p.71) So following factors should be applied when it comes to this analysis:

1. **Strengths**: are things which one company is good at and that can be used for "completive capability". Companies' core competence and therefore their straight can be based on the way how customers see and value that brand, the specific technology they are using to increase inability of others to copy it, on top of that to create at smaller price with help of effective and efficient supply chain to cover as big a territory as possible while having good

relationship with customers at price that they are willing to accept which will make for them (companies) satisfying profit margin. (Gamble, J. 2016, p.72)

2. **Weaknesses**: of course there are aspects contrary to the strengths they can be poor representation of your brand or business philosophy, bad forecasting in terms of planning, and as consequence comes overstock of the produced, thereby utility of products are not well used, so financial resources are in the slope. Companies need to have something special in their products, and to offer at lower price and more diverse way than competitors. (Gamble, J. 2016, p.72)
3. **Opportunities**: Entering the foreign market without high cost created from bargaining power of the new market or your competitors, and possibility to offer your "know-how" produced product to other segments at higher prices, because that segment is capable of, leaving you with higher profit margin. There is also a chance of joining forces with other partners in order to fashion a wider range of products. (Gamble, J. 2016, p.72)
4. **Treaties:** are part of the external environment as well as opportunities, but treaties could harm the capability of a company to earn money, by quick change in the market by industry shifting in other direction than initially planned. On top of that customers' needs and wants are major parts of that shift, whereas institutional intentions could go in opposite direction than your competitive strategy and investment plans, which could lead to loss of significant portion of earnings. Competitors could even be more empowered from such environmental constellation and take greater share or your prior segmentation. (Gamble, J. 2016, p.72)

3.5 Strategy Formation and Generic Strategies

After finding out what the company is made of (capability, resources, supply chain) and in what environment it operates on wider and shorter level (Porter's 5 forces), it is easier to find out which generic strategy will be exploited in the best possible fashion to create competitive advantage. Although it exists according to J. Gamble (2016) five generic strategies who formed its perception out of M. Porter's book "*Competitive Strategy: Techniques for Analyzing Industries and Competitors*" from 1980, as you could see in the Figure 8, we will focus just on three of them as it is needed for the purposes of this work.

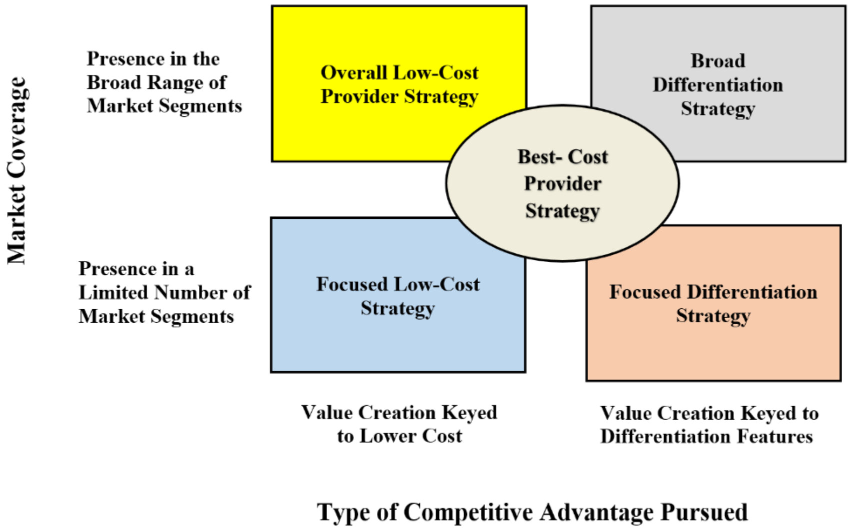

Figure 8: The Five Generic Competitive Strategies

Source: John J. Gamble (2016), "*Essentials of strategic management: the quest for competitive advantage*", p.90, extended version of a three strategy classification displayed in Michael E. Porter (1980), "*Competitive Strategy: Techniques for Analyzing Industries and Competitors*", pp.35-40.

As it is displayed in the figure above there are two major "factors" which have influence on the managers' decision making by separating the two possible competitive strategies from one another at they are: (1) whether companies are focusing on the market segment in broader or narrow sense and (2) which "type of competitive advantage" the company applies and they in generally will be of low cost or differentiation. Mixing 2 competitive strategies with these two factors we are getting five of them (Gamble, J. 2016, p.90):

1. "A **lower cost provider strategy's**" intentions are based on competing against competitors with lower price and by doing so, trying to cover as much a market share as possible.
2. "A **broad differentiation strategy**" is modifying its own product to such an extent that finally broad segment of customers experience it as significantly different from its competitors.
3. "A **focused low cost strategy**" is basically doing the same tactic as "lower cost provider" toward its competitors but focused more on the smaller and much specific with its characteristics a "market niche".
4. "A **focused differentiation strategy**" is similar to "broad differentiation" but in this case their product or service is formed in the way that it is suited to needs and wants of narrow market share and at the same time to outperform competitors in that focused segment.

5. “A **best- cost provider strategy**” is nothing else than mixture of the aspects of all 4 above strategies in the sense that it gives more value to the buyers than they are expecting by consuming the lowest possible production prices compared to the competitors on the well-defined market with its need and wants packed in a precisely composed differentiated product. (Gamble, J. 2016, p.91)

Low cost provider strategy (“Overall cost leadership strategy”) it is mostly used in industries in which buyers pay lot of attention on the price and every change in the price gets their attention. Managers should have in their mind the cost of vital process for creation of their products while they are using low cost advantage over their competitor and deliberately not the lowest one they can generally offer, at one hand not to create the negative alertness in the heads of their customers by thinking that this product does not bring value at all. There are two options for the companies in general how they can use this strategy in order to create profit: (1) to place such a low price among the competitors that they cannot copy and by doing so to attract cost sensitive buyers towards you, (2) not to change your present price at all but to modify yourself in “the lower cost-edge” way so automatically raise the margin and so it makes profit (this can be nicely seen on Figure 9.). (Gamble, J. 2016, p.91; Porter, M. 1980, p.35)
For managers the easiest way to understand how their low cost strategy can be improved is by comparing their own supply chain and the “relative costs” with its competitors. After finding out, managers could either **cut the cost inside value chain in most of the steps** so it becomes more “cost effective than rivals”, or to **revitalise enter supply chain by improving some crucial activities so it becomes more competitive**. Basically not every aspect of the supply chain must be under the scanning and process to keep the cost down, by doing old things in an original way. Crucial steps which pull the most of the cost out of the companies’ budget and which should be well-ordered in order to pursue “cost leadership strategy” are so called “**cost drivers**” and they are (Porter, M. 1985, pp.97-100):

- “**Controlling scale**” means trying to use “economy of scale” in such a way that when they reach new regions with increased production of universal product, or “simplifying its production line" or promoting that this type of scale is much more superior to the competitors’ one. (Porter, M. 1985, pp.100-101)
- “**Controlling learning**” by intentionally motivating workers to increase their working knowledge and experience in any shape or form, especially when it comes to “know-how” capabilities, such labour should be respected, so that information can stay safe inside the

company and from time to time figure out what competitors are doing, so you can improve your “learning curve” effect. (Porter, M. 1985, pp.101-102)

- “**Controlling the effect of the capacity utilization**“ could be done in various forms. For example the company can invest in marketing so that, they leveled the average utilization through the year and not to have problems during the seasonal peaks, focus on the products which have longer lifecycle, or staying at their lower prices during the whole year and letting competitors deal with seasonal fluctuation, or maybe borrowing activities to your sister company so utilization is used maximally. “Vertical linkage” in terms of the synchronized work on utilization mission with suppliers could really cut the cost and improve overall optimization. (Porter, M. 1985, pp.102-103)
- “**Procurement and cost advantage**” are important for the company since it can create savings on whether cheaper raw materials which will have similar or the same effect on the company’s product. That is the reason why company should keep important suppliers close but occasionally check what other supplier can offer them, and find out if their price is reasonable according to the market structure. Additionally purchasing of the bigger lots as part of the gather transaction of the company and sister company can reduce the cost per unit. (Porter, M. 1985, pp.106-107)
- “**Production technology**” is nothing else than striving for efficient technology in the production and “computer-assisted design (CAD)” which allows companies to automate its production of several forms of its product at higher volume not just one form at mass production at low cost design structure. (Gamble, J. 2016, p.93)
- “**Communication and IT**” in the modern world in which we are living it is important to make your plans according to your capabilities and information you processed that you got from external environment and afterwards sending them in right parts of supply chain with help “ERP” and “MES” system. (Gamble, J. 2016, p.91) Such technologies could have great impact on saving cost from other drivers like “taming, location, or integration” with your suppliers. (Porter, M. 1985, p.105)
- “**Outsourcing and vertical integration**” are powerful tools to use so the optimization and profit rise significantly. With the help of outsourcing companies can use the production powers or general good developed actions for much smaller amount of the money than they would do it in-house and by vertical integration doing totally opposite and wanting more control in the forward and backward steps in the supply chain. (Gamble, J. 2016, p.93)

- "**Timing and locations**" could be crucial in fast chaining environment, especially when companies can use the momentum of the increased demand for some product and service, and on the other side be careful and wait for the right moment to copy proven technology so they could overtake market segment at the right moment. We talked about location of the companies and their production plants or distribution centers for suppliers and buyers. (Porter, M. 1985, pp.104-105)
- "**Labor productivity and compensation costs**" motivation of the workers in recent years have become a very important project of every company that directly influences the effectiveness of SC and cost reduction, other companies can do foreign direct investment into countries with lower labor costs or not developed workers' unions, whose job is to request higher earnings and better working conditions. On top of that, purchase of the machines which replace workers are also a way to save the money. (Gamble, J. 2016, p.93)
- "**Institutional factors**" as we talked many times before, have great external power toward the internal things of every company's SC and likewise on their strategy. On the other side companies could with lobbing tool encourage government to reshape the laws or policies that ultimately will lead to better position and lower costs. (Porter, M. 1985, pp.103-104)

Recalibration of the value chain by removing unnecessary high in cost steps and connecting more suitable ones on a more united and efficient level could save a lot of money and make strategic advantage. This recalibration could be done by removing middle man after you produce your product or service and creating the direct sale to your customer, nowadays that is even easier with a possession of a web shop. Next step would be removing the actions with cost they create and added value they produce for buyers, by doing so buyers tend to accommodate and to understand the philosophy behind low cost strategy. (Gamble, J. 2016, pp.93-94) Introduction of "new raw materials", "different production processes", "new advertising media" could also be very important aspects of the value chain "reconfiguration". (Porter, M. 1985, p.107)
Applicability of the cost leadership strategy could be multiplied in the case some things appear to be present when in the high-price contest company enters as the low cost provider, especially in the highly competitive market with similar products that do not matter so much to the consumers, then they(consumers) are going for lower price. That is one of the reasons why buyers shift to other sellers who offer nearly the same product at a lower price. Such a favourable constellation happens when the marker mostly consist of big buyers, and they look for their big demands and the smallest price, which is with economy of scale a win-win situation for a producer (seller). For other sellers it is hard to enter a competition game when the price ceilings' of low-cost leader is

very low, and the attractiveness to the customers is already too strong. (Gamble, J. 2016, pp.94-95)
On the other side managers of the companies which are willing to pursue this strategy should keep in their mind, a strong emphasis on the cutting cost strategy, with some market fluctuation, could lead to no profit and even loss. Other **possible setbacks** for managers that implement this strategy is, how long they keep it up, and is it hard for other companies to copy the process which makes the most savings by cutting cost at that place? At the end companies must constantly pay attention to what customers want and how much they are ready to pay for it, since sometimes customers want cool features which companies are not capable to deliver with their hard-core low cost strategy, even when the buyers are ready to pay for higher price. At that moment market position can turn very hard on such companies, the moment when other companies are ready to fulfil demands. (Gamble, J. 2016, pp.95-96)

Diversification strategy comes at the moment when customers' needs and wants overcome standardly offered characteristics of their products. For clear understanding of that, firms need to pay attention if that transformation will bring enough added value for it buyers to be ready to pay, and at the same time no other seller or very few can offer it. (Gamble, J. 2016, p.96) The change should not be focused just on the resources they have, but the way how long they can keep these newly awaked resources accountable in relation with the cost they bring with it, and is it possible to create this differentiation based on many other parts of the supply chain not just on the "raw materials and marketing". (Porter, M. 1985, p.119) There are many possibilities which open the moment companies start to apply this strategy like requesting higher prices for the higher sales created due to expanded market's segment and additional involvement of the buyers which tend to be associated with the brand or the features of the product. Of course the profitability of a differentiated product follows as long as the overall cost (differentiated ones are part of it), is lower than the requested premium price that offers the value to the customers. (Gamble, J. 2016, p.96)
Differentiation strategy could be **manifested and applied** in many shapes or forms and industries. The most basic one is when the company put emphasis on "a unique taste" or have "multiple features" of the product which are attractive to buyers. (Gamble, J. 2016, p.96) Buying process for customers could also be a major issue, so the methodology of the buying in the sense of the availability of the products, and if they could be bought at one place, could that product fit with others which by logic it should, are all the questions buyers are asking before they make a decision. (Porter, M. 1985, p.123) What the product looks like, what type of the technology is engraved with

long lasting warranty and the status which it brings to the customer after the purchase, and customer service responsiveness in case of inconvenience. (Gamble, J. 2016, p.97)

Differentiation strategy could be empowered at the moment parts of whole supply chain gain and embrace some new goal and task at which they will work, so united in new form would create extra additional value for the customers and extra cost for the competitors to cope with. Those parts which managers could work on other than "cost drivers" that we saw it in the previous strategy, are called "**uniqueness drivers**", which at the end of the day this strategy is actually all about, and they could be seen through the following forms (Gamble, J. 2016, p.97):

- Investment in "high quality inputs" is one of the first signs that company stays strong by its principles and service they offer.
- Buying the space under the buyer's sun was always possible with help of "innovation and technology advances", which at the moment they appear at the market, they can reap the profit from the being first in the market with it.
- The originality and functionality of the product or service brings the importance to the buyer who wants to be associated and recognized with it, and that is the moment when it is differentiated from the others.
- The previous two drivers would not be possible without the initial step in the product development process and that is R&D that puts ideas into real efficient manufacturing process, machinery or the product itself. That can save the cost and make company to reset self in other way.
- The "continues quality improvement" is something that can help companies wellbeing on so many levels, by reducing the costs of post ante purchases, "good-buy" brand synonym, building of trust in your product, by giving the longer usage life of the product.
- Workers of every company are actually the true and prime driving and creation force of every company and that is the reason why managers should know how to appreciate and to encourage their workers who are willing to put their ideas, knowledge, and working capabilities for a better market positioning of the company.
- Every product and service needs to reach buyers, and that is the moment when "marketing and brand-building activities" begin to play its role on how to represent the company, the processes they use, the product they are offering and how they are offering and in the end how that purchase will positively affect the buyers. That picture can make a big discrepancy between the companies in the market in the eyes of the potential customers.

- During the process of buying a product and the moment they are bought, customer service mirrors the image of the how they seriously take the value their product brings to the customer and how important their customers are important to them. Many companies developed competitive advantage just on great customer service, and deals they add to it. (Gamble, J. 2016, pp.97-99)
- “Institutional factors” could restrain the possibility of some companies to apply differentiation that they had in their business plan. (Porter, M. 1985, p.107)

As we could see how **reconstruction of the whole value chain** with cost leadership strategy could move **company in positive direction**, so it can look in both directions of the value chain, with included differentiation strategy it can make serious steps forward too. Customer’s value could be increased by optimizing the stream which comes from company to the customer where all distributors, retailers are in the line and should be linked and coordinated with right shared information so synchronization between production company and buyer goes as smoothly and as less costly as possible. The same logic should be applied when it comes to the direction which goes from suppliers to the production company, where “customer’s needs” are in the focus, and that happens at the moment when differentiation in the form of needs and wants fulfilment should meet the capabilities and priority of supply. (Gamble, J. 2016, pp.97-99)
There are ways how customers perceive values, the differentiation strategy brings to them and there are three possibilities:

- By inputting the features which customers highly appreciate is a vital distinguisher from the competitors that lower the cost of the buyers or make its life more efficient.
- Performances of the above mentioned features could be placed in five broad categories that always make differences are “reliability, durability, convenience and ease of use”.
- Part of that features could also evoke the feelings which are not necessarily economically connected but it represents higher value for general wellbeing, but also as a status symbol. (Gamble, J. 2016, pp.99-100)

Before we continue with explaining in what environments and conditions differentiation strategy gives its full potential, it is important to point out the key aspect of the “**perceived value**” by the buyers and “**signalling value**” inside every product. (Gamble, J. 2016, p.100) Basically, companies with good strategy with help of good marking and presentations will give the tool call ”signals of value” that helps them clarify and justify value they are bringing with certain differentiation at higher price, so they can appreciate that alternative and create the knowledge and bond with that product much more easier. (Porter, M. 1985, p.139) There are few reasons why mangers should hand out value signals to its customers: (1) when it is hard for customers to evaluate what proportion of money goes to that added value, (2) moment when customers are hesitant whether to buy for the first time, (3) when customers do not make constant intentional purchase, (4) when the buyer does not have that sensibility in understanding whether or not that price brings the value too. (Gamble, J. 2016, p.100)

Having that in mind managers could have even better perception of when it would be **the best occasions to use differentiation strategy**, and they are:

- Different people with their own needs and wishes create the market segment that need to be served, and that is the moment when the companies are offered opportunity, to show their capabilities of adaptation and to cover that segment with asked fulfilments.
- Sometimes the branch at which product is part of, can tremendously endow the foundation for the product chance to diversify with features which company thinks buyer would like.
- In recent years when, many ideas come to light, it is hard to differentiate its own product more than actually it is possible or it is necessary (compare to other few competitors), that might be the sign that it should focus on the persuasion of the customers that their differentiation it is much better than from competitors, at features they are not putting emphasise on.
- Modern market place is the suitable for the companies which are constantly keeping up with innovative patents from its R&D department, making them more reliable and visible in the pool of competitors' products. (Gamble, J. 2016, pp.100-101)

None of the strategies that we addressed above it is perfect in its form and it has some parts which do not make them that great or not suitable for some situations or the companies, so **there are few holdups of differentiation strategy** and they are:

- When we said that fast-changing market has it positive sides, it has also downsizes for the companies which cannot hold longer their differentiated product in the market with their sustainable uniqueness which is under direct threat from the competition.
- Differentiation strategy needs to be on the level of the buyer's surprise that will trigger reactions like "wow, I need that" or "it will help me a lot", and if that does not happen during evolution "unique attributes" of product worth, customer will not go for premium price of that product but much cheaper competitor version.

- Financially and cost related looking at this strategy should be constructed in that way that costs do not go over the level that differentiation attributes can cope with, or that profit margins generate enough money, but often differentiation strategy is taking too much of the resources so the cost is either too high or the margins could not create reasonable amount of money.
- As the marketplaces' needs and wishes of the customers grow, the higher percentage of the differentiated products are on the marker, and as outcome it could happen, that buyers tend not to buy over-diversified product at higher price since their needs were satisfied at the earlier form of that product or service.
- At the end, that proportion in the difference of high quality differentiated product, sometimes could not be spotted by the buyers, since it does not triggers interests. On the other side, premium price of the product even for the ones capable of buying it, do not see that intrinsic value in it. (Gamble, J. 2016, p.102)

At the end we could see that these two strategies have been basic strategies for many nowadays companies especially with theirs variations (focused low cost strategy, focused on differentiation strategy, best-cost provider strategy), but their common goal is to create a much bigger profit margin. Boehlje, M., Gray, A. and Dobbins, C. (2004) explained that this marginal profit in case of cost leadership strategy, margins could be increased by improving productivity that has been done by reducing the costs of the activities which bring the most to the customer value. Other differentiation strategy is focusing, in their opinion, on increasing overall customer value by adding more value to the whole "value plate" (Porter's generic chain) and by at least keeping the same proportion of marginal profit, earn more money, especially when the customer positively reacts to that added value, profit margin could also rise compared to the one before when differentiation strategy was included. (pp.10-12)

3.6 How Institutions and Institutional Environment influence Strategy and Value Plate of the Companies

Throughout this work we could see that environment in its every form shape the reality and force business decisions to be applied in various ways. In the broad sense institutional environment comes from intra-governmental and/or governmental level which applies its strength and influence through the various rules, laws, standards and constitutions. As Douglass North (1990) would emphasize the importance of the view which managers form by observing surrounding and possible adaptation, because "*if political and economic markets were efficient (i.e., there were zero transaction costs) then the choices made would always be efficient*". (p.8)

That government's influence on strategy and market position of the company could start even at not so obvious way through the implementation more rigorous environmental standards. That theory was explained by R. David Simpson and Robert L. Bradford in their paper "*Taxing Variable Cost: Environmental Regulation as Industrial Policy*" from 1996 where they checked different directions of influence and their outcomes on domestic and international competitors, placing it from the situation that government could balance unstable competition between the companies by imposing strict environmental standards in which domestic companies will have "strategic advantage".(pp.282-300) Other contra argument to this situation is when they (Simpson and Bradford, 1996) used additional argument of Michael Porter from his books "*The Competitive Advantage of Nations*" from 1990 where he pointed out that such behaving of government would be actually "common stimulus to innovations which result in competitive advantage".(p.47) On top of that, in the article "*Strategic Policy and Environmental Quality Helping the Domestic Industry to Provide Credible Information*" of Mari Rege from 2000 where she added that competitiveness could ethically be placed by giving non-asymmetric information to the consumers through the valid governmental institutions which will monitor production process, concerning "high environmental quality goods", that should intentionally be differentiated at the market from the domestic and foreign competitors, and with such behaving (following of the rules) to be in the position to earn higher profit. (p.280) In the paper of Roger Moser, Jens Winkle, Gopalakrishnan Narayanamurthy and Vijay Pereira called "*Organizational knowledgeable responses to institutional pressures – A*" they concluded that reactions of the managers and therefore their companies to "institutional environments" and its generated pressure, could be "–either passively, actively, or proactively". (p.38) According to Tarun Khanna , Krishna G. Palepu and Jayant Sinha 's article "*Strategies That Fit Emerging Markets*" from 2005, it became hard for the western (from developed countries) multinational companies to apply their strategies at emerging markets because the importance of the "specialized intermediaries, regulatory systems, and contract-enforcing systems" which they mostly overlook in the process of internationalization and the simplest examples of that could be seen through the aspects which can reduce the cost of production, that is one of the reasons other than capturing a new market. That is the reason why such companies developed strategies that are differentiated in the way that fit to exact market with implementation of the "work around institutional voids". (pp. 63-65) There are many institutional indicators and indexes which international organizations, governments and companies are using to understand proportion of intensity of different institutional and environmental aspects that influence and form the general picture of some country and their society as well as the economy on so many levels especially in industries and individual companies, some of them are: “The Institutional Property Rights Index (IPRI)”, “The Business Freedom Index (BFI)”, “The Corruption Perceptions Index (CPI), The Enabling Trade Index (ETI)”. (Terzić, L. 2016, p.22) If we would take the smallest form business creation in terms of the people employed and amount money earned per year, entrepreneurship represents that and according to Martin Andersson and Magnus Henrekson from their working paper called “*Local Competitiveness Fostered through Local Institutions for Entrepreneurship*” from 2014, conditions which local institutions could offer so “business friendly” bureaucratic atmosphere where they feel much more encouraged to work at full capacity and effort. In same manner would advocate David Dollar and Matthew Kidder in the chapter 7 of the GVC’s report from 2017 with subtitle “*Institutional quality and participation in global value chains*” that companies which’s value chains are part (Global Value Chains) as the one of the most complex forms of value chains in the business world, are more frequently coming from countries with institutions that effectively implement policies that create “stronger property rights and rule of law”. (p.161) Local governments with their “economic institutions” and “appropriate infrastructures” could give greater chance for companies to participate and gain competitive advantage at GVC level. (p.164) In the same 2017 GVC report Nadim Ahmad and Annalisa Primi added that countries should motivate companies by “shifting” their strategy toward products with higher added value, and that is by “functional upgrading” inside value chain that brings the most of overall value to that SC and product, but also in social view with “higher profits and higher employment creation”. (pp. 69-70) Institutions like WTO plus or WTO extra, have own rules regulations and policies and the results come different agreements, which according to Michele Ruta in same report from 2017 she added that positive effects of “preferential trade agreements” on GVC and companies who are part of it.(p.183) To this idea we could add perspective of Miranda and Wagner Rodrigo in from their work “*Neighbouring Institutions Matter for the Competitiveness of your Value Chain*” from 2016, where they explained how good constructed institutions in the neighbouring countries give additional dose of safety for the firms whose competitive strategy relies on the outsourcing of the highly important inputs for their products and how willing they are to participate in the environment which greatly appreciate enforcement of the contracts. So as we could see through the whole theoretical part of this work, together with findings of Jasinta Msamula, Wim Vanhaverbeke and Nicholaus B. Tutuba in their work “*Influence of institutions on value creation activities of micro and small enterprises in rural Tanzania*” from 2018 where the institutions with their environments (“regulation compliance, regulation knowledge, regulation enforcement, and regulatory costs”) that they are resonating around, and making measurable impact on “the value creation activities of enterprises”, and that is exactly what makes a difference to the strategy of the company and final overall value to the customers.(pp.197-204)

3.7 Europeanization as process of Accession of Serbia in EU

The process in which Serbia is modifying their institutions as the candidate country for accession to the EU, we will use terms “accession” or “Europeanization”. According to a Government of Republic of Serbia in “*The Opening Statement of the Republic of Serbia*” held on 1.21.2014 in Brussels, that “the decision of the European Council of 28th of June 2013 to launch accession negotiations with the Republic of Serbia and the convening of the first Intergovernmental Conference open a new chapter in the relations between Serbia and the European Union” represents the big milestone in Serbian international modern history. The general strategic idea of accession is to “modernise its legal, economic and institutional system” with promotion of the key values of EU like “pluralism, tolerance, solidarity, non-discrimination, the rule of law and strengthening democratic institutions” as the hope that these are preserved and empowered by the people in Serbia. Over the past years Serbia focused on improvement of different aspects of the state’s economic organization according to EU standards and it will continue to improve “market economy rules and social justice” in order the raise the readiness for competitiveness with EU. (p.2) Serbia is motivated to improve the relationships with neighbouring countries regarding the “regional stability” by overcoming current difficulties whether they in form of “internal, structural issues or bilateral” ones for the sake of the grouped goal of the Western-Balkan and its future. The history of Serbian gravitation toward the Europe started back in 1970s by signing of the Trade Agreement with European Economic Community which officially made first “political and economic” strings. (p.3) On 1 September 2013, Serbia got the status of the „associated country” with putting it into effect “The Stabilisation and Association Agreement” and by doing so it smoothed the way towards the easier implementation of “National Programme for Integration of the Republic of Serbia in the European Union (NPI)” and “National Programme for the Adoption of the EU Acquis (NPAA)” which Serbian Government adopted in order to fully synchronize the national law with “EU Acquis by the end of 2018” and all needed “institutional and financial preconditions” for better accession.(pp.4-5) One of the technical steps during this process was for sure an “Instrument for Pre-accession Assistance (IPA)” that have a role of financial support which should be allocated for “political and economic reforms, building institutional capacity, and strengthening cooperation and economic and social development” that will bring closer Serbian inner environment to the standards desired for better negotiation and accession process. During 2007-2013 period EU invested around 1.5 billion EUR through the allocations of IPA, in which Serbia successfully executed with ratio of 98% annually. (p.6) In 2014 one of the crucial moment happened in relation of EU and Serbia when the whole trade became “tax-free except for some particularly sensitive agricultural products for both parties”. (p.4) According to the official website of Ministry for European Integration of Government of the Republic of Serbia from 2014 until today many chapters have been opened, discussed, negotiated and implemented to a certain degree. With all this chapters and other that should come, Serbia would bring not just economy, social and juridical system to EU but its culture, Cyrillic script, tradition and overall national identity, and that is what EU’s motto stands for “United in diversity”.(Government of Republic of Serbia. 2014, p.8) Finally, the main focus of new regulations will be raising competitiveness of Serbian economy in the area of the single markets, especially when it comes to agriculture (Chapters 23) where the emphasis is on shifting Serbian agricultural market from basic and simple to the foods and products which are high in quality, sophisticated, unique, diverse and regionally recognizable from the customers all around EU. One of the ways it will be done, is through the educational and financial support of the farmers that match the standards of the member states. (pp.9-11)

4 Internal Legal Structures of EU

To better understand EU with all its ideas, we should go back in the past and see evolution and developments until this day, especially in terms of agriculture. In the Serbian version of university book of Katarina Đurić et.al. called "*Regulations in Agriculture of the European Union*" from 2019, pointed out the words of famous writer Victor Hugo (1802 - 1885) in his vision of "European Society", by saying "The day will come when all nations will of this continent, while retaining their national identity, unite in a higher degree of unity and form "European brotherhood". (p.17)

First official agreements which created bases of EU that Katarina Đurić emphasized in her monography "*Agriculture and rural development of Serbia in the process of European integration*" from 2018 was "Marshalls Plan" in 1947 in Paris made out 16 countries and it lasted until 1952. Next step was in 1951 when formation of "European Coal and Steel Community – ECSC" happened which was important connection between 6 countries of West Europe. The "Treaty of Rome" in 1957 was a crucial moment when "European Economic Community – EEC" and "European Atomic Energy Community – Euroatom was formed".(p.18)

In Roma treaty countries should follow the rules of : "Establishing a common market and harmonizing the economic policies of member countries; Achieving a continuous and balanced expansion of economic development and increasing the standard of living of the population; Strengthening ties between member countries".(Đurić et al. 2019, p.1)

Other treaties came into account for building EU, some important ones are: "The single European Act in 1986; Maastricht Treaty in year 1992 when European Union was constituted; Amsterdam treaty in 2nd October 1997; Treaty of Nice ratified 26th February 2001, Treaty of Lisbon brought into the force on 13th December 2007". (Đurić, K. 2018, p.19).

The aims presented at official EU website, for the member states initially listed in Lisbon treaty are: " promote peace, its values and the well-being of its citizens; offer freedom, security and justice without internal borders, while also taking appropriate measures at its external borders to regulate asylum and immigration and prevent and combat crime; establish an internal market; achieve sustainable development based on balanced economic growth and price stability and a highly competitive market economy with full employment and social progress; protect and improve the quality of the environment; establish an economic and monetary union whose currency is the euro".(Official website of European Union. 2023, https://european-union.europa.eu)

In order to reach these goals, it is important to have institutions which create rules, execute them, monitor or sanction them. There are 3 of them, whose job is decision making and they are:
The **European Parliament** represents institution with representatives of all EU members since 1979. Their meetings are held in Strasbourg and Brussel and EU's headquarter is in Luxembourg. At these meetings they adopt laws, secure their execution. (Đurić et al.2019, pp.4-6) Moreover it makes "decisions over international disputes, decisions over enlargement and review the work of European Commission".(Đurić, K.2018, p.23).
European Council role is to "define the general political direction and priorities of the European Union." By bringing the leaders of member states they decide on "common and security policies" by keeping in mind all "EU strategic interests and defines implications". Sometimes EU Council can ask European Commission about their opinion on certain topics. (Official website of European Union, 2022) One the major topics which can decide on "adaption of the budged of EU together with Parliament". (Đurić, K.2018, p.23).
European Commission on the other side is the "EU's politically independent executive arm. It is alone responsible for drawing up proposals for new European legislation, and it implements the decisions of the European Parliament and the Council of the EU."(EU website, 2022) It represents EU internationally and together with Court of Auditors can follow the money spending, as well as with the Court of Justice can objectively observe if the "laws of EU are properly applied in all the member countries".(EU website, 2022)

Next two institutions have certain degree of decision making with emphasis on consulting. (Đurić *et al*., 2019, p.5) Some bodies have their sphere of influence depending on the nature they are operating. The **European Economic and Social Committee** job is "to protect interest and right of civil society in terms of economic and social politic." Whereas, **The Committee of the Regions** is advisory body in terms when the EU Commission or Council wants to bring new laws into force, they need to consult with the Committee of the Regions so it prevents any imbalances in some regions regarding "economy", "culture" and "health". (Đurić *et al*., 2019, pp.5-8)
Inside EU, financial objectives are divided mostly on:
The **European Central Bank** whose job is to keep stable prices by managing euro in terms of production of banknotes, exchange rate during exchange with "commercial banks in the Eurozone" and balancing with their foreign currency reserves during that process. By doing so Central Bank conducts EU economic & monetary policy. (EU website, 2022)
The European Investment Bank main characteristic is lending money to the projects which can be inside and outside of EU that can potentially meet objectives of EU. This bank is owned by EU

countries and has intention to: “Boost Europe's potential in terms of jobs & growth; Support action to mitigate climate change; Promote EU policies outside the EU”. On top of that European Investment Bank is the biggest shareholder of **European Investment Fund** whose purpose is to “provide funding to small and medium-sized enterprises (SMEs) through venture capital and risk finance instruments.” This is especially inside the countries which are in the process of the accession to EU. (EU website, 2022)

4.1 EU Structure of Agricultural Legislation

EU has created cornerstone of agricultural legislation for the whole Europe and not just for the members of EU. As Milica Stanković in her expert work called ”*The Agricultural Policy of Serbia and Common Agricultural Policy*” from 2012 formulated that “the Common Agricultural Policy (CAP) is the product of long-term changes that arise from the interaction of a large number of internal subjects of the single market of the European Union, starting from the producer, through the EU institutions, the governments of the member countries, and on to the consumer”. (p. 65)
The idea of the CAP pointed out by Đurić, K. (2018) according to (Tracy,M. 1996) that “common market is referring as well on the trade of agricultural product” which can be seen in Article 48 of the **Treaty of Rome**, which established the European Economic Community. In that treaty suggestions can be found that such organization should have market organized trough the formation of CAP. This treaty was adopted in 1957. (p.36)
Based on Official Journal of the European Union C202 from 2016 in the “*Treaty on the Functioning of the European Union*”, Article 39. A set of objectives of the CAP is listed:

> “(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour;
> (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
> (c) to stabilize markets;
> (d) to assure the availability of supplies;
> (e) to ensure that supplies reach consumers at reasonable prices”.(pp.62-63)

In the same treaty with Article 34., the Common Organization of Agricultural Markets (COM) is formed in order to achieve above mentioned objectives, and depending on the nature of product, market should be organized in:

1. “Common rules on competition;

2. Mandatory cooperation between different national market organizations, or else
3. European market organizations. "(Đurić *et al.*2019, p.13)

With rules of COM which changed in the course of time, many trade obstacles have been managed inside and outside of EU when we talk about application of same customs rates in trade relations with third countries which refers on all agrarian products or group of products.(p.13)

Conference in Stresa in July 1958.played significant role in understanding the common and divergent aspects of 6 national agrarian policies together with representatives of farmers and processors in food industry, by comparing the ideas and needs of each other. For example Italy and Netherlands had aspirations toward more liberalization of the trade, whereas France wanted to take care of the agricultural production surpluses by organizing common market. On the other hand, German and Belgian representatives were focused more on structural changes and financial questions. This meeting gave good example what CAP might be about. As the outcomes of this conference they came up with this ideas:

- "The need to improve trade between member countries;
- Abolition of quotas in trade;
- Establishing a close connection between price and structural policy;
- Establishing a balance between supply and demand for agricultural and food products in order to prevent the occurrence of stocks;
- Creating conditions for fair competition between individual regions;
- Preservation of the family farm as the basic production unit in agriculture". (Đurić *et al.* 2019, pp.13-14)

Additionally, 3 fundamental principles of CAP have been made at this conference:

The unity of the market can be effectively proceed on agreed rules, standards of sanitary and veterinary control of agrarian products between member states. Such products can free trade without any customs barriers that "presuppose the establishment of common prices" and "same rules of competition." (Đurić et al.2019, p.14)

The Priority of Union is nothing other than inner market protection of European Economic Community from external import. On member states levels it is "given priority in placement of domestic products through the one national market, at level of Union." The menace comes from export of less costly products from third countries, and with some protection instruments fluctuation of prices is stable, supply of inner products is secured and therefore the income for the EEC farmers is insured. (Đurić *et al.*2019, p.14)

Financial solidarity, represents principle where EEC made financial funds which was used to pay for all necessary CAP measures. In 1960, European Agricultural Guidance and Guarantee Fund (EAGGF) officially formed as institution. (p.14) This fund had also its own transformation which will see later on.

In 1962 "**the Common Agricultural Policy is born**" and represents "the partnership between agriculture and society and between Europe and its farmers." At the begging there were 2 main aims:

- "to improve agricultural productivity, so that consumers have a stable supply of affordable food
- to ensure that EU farmers can make a reasonable living." (European Commission, 2012, pp.3)

Over the next 60 years these goals have changed and brought some new ones like:

- "help tackle climate change and the sustainable management of natural resources;
- maintain rural areas and landscapes across the EU;
- keep the rural economy alive by promoting jobs in farming, agri-food industries and associated sectors". (EU website, European Commission, 2022)

From this moment national systems of member states of EEC used the mitigation of the prices at local level as instruments for managing common market for major agro-products. One of the interventions is "deficiency payments" which was implemented as the pay-out for the difference in prices from the one firstly agreed on and one which was on the market. The "target prices" represents another system of the market, where we have fixed prices for all agricultural products. This way of setting the market bought 6 member states time during the 1960s to improve their administrative infrastructure in order for direct payments as method. In the end of this, supply chain, customers paid the biggest price. (Đurić *et al.*2019, p.15)

There were other instruments which contributed development of the CAP in this direction. Some of them like "Taxation on import" from the countries outside of Community, "Export refund" for the farmers who want to export and the price is lower than one at export market and final "Intervention prices" when there is more products on market than needed and government buys it and stores it for itself, helped the production in EEC to flourish. In the next 10 years from the moment CAP is formed, production has grown 30% and for some branches of agriculture in EEC situation was stable but for the other like beef, fresh fruit and vegetables demand was above supply as an outcome of higher living standards. (p.15)

Pressure from various interest groups was constant and space for any manoeuvre in the budget increase was very small. Price limitation set on yearly basis made agrarian fond to occupy two thirds of whole budget of EEC, but money which came from taxation could not cover half of financial inputs they used. (p.15) Such CAPs politic in 1970s brought the outcome, widely known as “Butter Mountains and Wine lakes” which happened because funding was in direct link with production. (European Sources Online. 2013, p.3)

Over the next 10-15 years these obstacles became more obvious, so they came up with several innovations which helped with “expenditure and surplus production:

- A co-responsibility levy on dairy farmers and later production quotas for milk
- An arable land set-aside system
- Premiums for the extensification of production and the conversion of surplus products
- Direct income aid system”. (European Sources Online. 2013, p.4)

MacSharry reform in 1992 was unavoidable since many big economies joined EEC and brought their capacities, possibilities and restrains in the CAP. Moreover GATT in Uruguay round added its own influence since they were preparing together for common solutions in terms of competence and solutions in world trading.(Đurić *et al*., 2019, p.23) Major changes of this reform were: “unlimited guaranteed prices was shifted towards one of direct income support for farmers… other corrective mechanisms was added or extended, such as set-aside schemes, early retirement schemes or afforestation grants”.(European Sources Online. 2013, p.5) Effectiveness of agricultural industry which influences whole EEC was one step closer with new CAP instrument called “compensation payment” and with those instruments possible effects would be visible through the: “increase in earnings and well-being of farmers (landowners), changing the structure of agricultural production, changing the conditions for structural adjustment, increase in land value and demand for loans, reducing the labour supply on agricultural farms, impact on the competitive position”.(Đurić *et al*., 2019, p.24)

4.2 EU’s Subsidiary System

Protectionism of CAP after MacSharry reformed continued in the way that previous GATT and now WTO still did not like. **Agenda 2000** (finalized in March 1999) opened new possibilities after the fall of Berlin Wall for the future eastern-country members and “was agreed to freeze agricultural spending until 2006 at about €43bn per year, including rural development and pre-accession aid”. As the part of Second Pillar of the CAP whose aim is to bring multi-functionality of agriculture by supporting the EU's rural development policy. This policy purpose is to refresh rural areas with additional segment of "diversification bringing together measures of economic, social and cohesion policy under one single framework". Contrary to that First Pillar of CAP which is about market support. Additionally "cross compliance" term is used in the way that as much farmers follow conditional "food safety and security, animal welfare and environmental standards" so much in return they would be able to use some direct payments from EU.(European Sources Online. 2013, p.5)

Common Agricultural Policy			
First Pillar I : Market Intervention: Sugar, Vine, Olivia oil Direct Payments (Decoupling) Cross Compliance Standard			**Second Pillar II :** Policy of Rural Development
Multifunctional Agriculture	Food Production	Environmental Protection	Rural welfare population

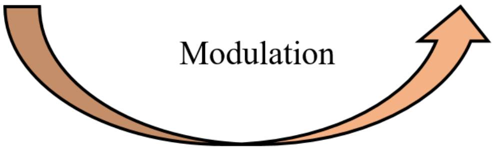

Figure 9: Pillars of the CAP

Sources: Živadinović, B. & Milovanović, M. (2011, p. 22) according to Pielke, M. (2009)

Based on the structural assessment of Bojan Živadinović and Miloš Milovanović in their work translated from Serbian to English called "*Guide to EU policies – Agriculture*" from 2011, one of the biggest **reforms happened in 2003** when EU wanted to make distinction between I and II pillar. As part of the First Pillar there is mechanism called "Decoupling" which is not any longer connected to practical products but now through the system of "Direct payments" and the methodology in paying is called "Single Payment Scheme". This Scheme used previous subvention period to determine the amount of financial support, but the proportion of the support comes from the respect various standards from First "Cross Compliance Standards".(p.21) Of course, with this reform, not all strings between subsidies and some products are detached, so countries can use old payment system in order to leave farmers production active in order not to create some misbalances in the market. Additional option in finance allocation is "dynamic Modulation" which allows countries to move financial support from Pillar I to Pillar II. (p.22)
As in "*Information Guide to European Union's Common Agricultural Policy (CAP)*" written by European Sources Online in 2013 was stated that "**severing the link between subsidies and**

production will make EU farmers more competitive and market orientated, while providing the necessary income stability".(Živadinović, B. & Milovanović, M. 2011, p.6)

In addition, Živadinović & Milovanović (2011) mentioned that Second Pillar or Policy of Rural Development has 3 points which its policy is based on:

1. "Raising the competitiveness of the agricultural and forestry sector
2. Environmental protection and land management
3. Quality of life and diversification of the rural economy".(p.23)

Moreover, "Program Leader" (Liaison Entre Actions de Développement de l'Économie Rurale) has the purpose of motivating local governmental bodies to improve project activities through the EU funds in order to prepare those regions for easier application to the CAP. Taking this program seriously it can positively influence welfare and job opportunity in rural regions. (p.23)

It is important to point out that during this reform regarding Second Pillar and in general, European Agricultural Guidance and Guarantee Fund (EAGGF) was separated in two newly created funds. In 2005, "The European Agricultural Fund for Rural Development **(EAFRD)** was created, which was established by EC Regulation 1290/2005, while Regulation 1698/2005 became the basis for a modernized rural development policy. On the other hand, Regulation 1290/2005 established the European Guarantee Fund (European Agricultural Guarantee Fund - **EAGF**)". (Živadinović & Milovanović. 2011, p.23)

New agricultural policy was design for the period from **2014 to 2020**. "This policy is based on 3 long-term goals:

1. Sustainable food production,
2. Sustainable management of natural resources, and
3. Balanced territorial development." (Đurić *et al*., 2019, p.33)

Such goals can be reached with constant upgrade of the present CAP's instruments. The upgrade is based on "competitiveness of agricultural sector of the EU, managing the concept of sustainable development and increase effectiveness." The suggested fund for this period represents 37,8% of total EU's budget, which is smaller than before. Leaving subvention strategy based on production output and focus on competitiveness with additional idea of not having production limit for certain products (vine, sugar, milk), will give farmers opportunity to manage their strategies according the world's market demand. Additionally EU with this reform thought about supporting young farmers which in that time was only 14% under the age of 40. (pp. 33-34)

In 2015, CAP installed new instrument as part of the First Pillar called "green direct payments" as the response to overproduction and over usage of natural resources and need to upgrade the system of environmental protection. For this instrument 30% portion has been assigned out of the budget.

On the top of that, member states other than "general (common) payment, green direct payments, support for areas with limited natural conditions, they received additional "Scheme of redistributive payments". This scheme will give chance to fortify small and medium agricultural holdings in the way that will create smaller discrepancy of the income between some holding categories, and different regions inside EU. Since EU has grown and its heterogeneity, it should work on transparency in the balanced righteous resource allocation of direct payments. (p.34)
With upgrade of I Pillar in period from 2014-2020 came an upgrade in "II Pillar as well:

1. Enabling the successful transfer of knowledge and innovations in agriculture, forestry and rural areas;
2. Achieving sustainable development of agricultural farms and improving their competitiveness;
3. Strengthening activities in the field of processing and marketing of agricultural products, animal welfare and risk management in agriculture;
4. Restoration, preservation and improvement of the quality of the environment from the aspect of agriculture and forestry;
5. Promotion of resource efficiency, and
6. Promotion of social inclusion, poverty reduction and economic development of rural areas." (Đurić et al., 2019, p.34)

Significance of this reform can be seen in need for member states to synchronize national programs for rural development, and to create schemes how they will use funds for direct payments, which started back in 2015.(p.34)
According to official European Commission website (2022), "In June 2018, the European Commission presented legislative proposals for a **new CAP"**. The proposals outlined a simpler and more efficient policy that will incorporate the sustainable ambitions of the European Green Deal. It took the European Parliament, the Council of the EU and the European Commission 3 years to formally adapt new CAP on 2 December, 2021. Smaller farmers inside local conditions are now becoming the target groups for which new CAP want to create better future with new measures. European Commission claims that "Agriculture and rural areas are central to the European Green Deal, and the new CAP will be a key tool in reaching the ambitions of the Farm to Fork and biodiversity strategies". (2022)

To have better overview of the CAP in this period it is important to pay attention to the financing of the CAP. As we mentioned previously financial fund is now separated in two major funds EAGF and EAFRD and CAP's budget allocation can be seen in *Figure 3*.

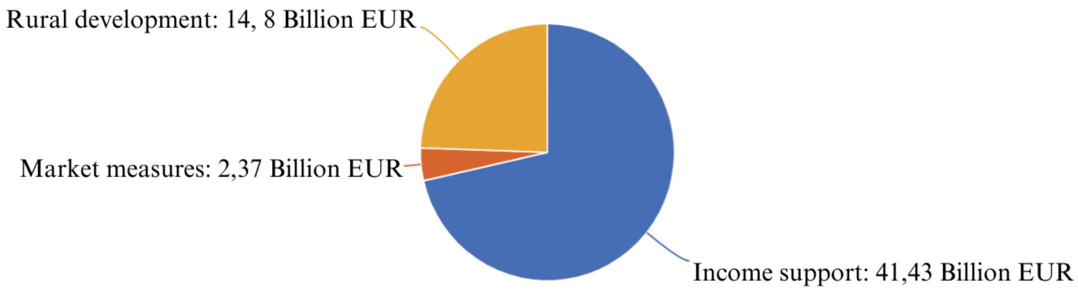

Figure 10: CAP Financing- The EU Support Farmers with 57,98 Billions € in 2019.

Sources: Official website of European Commission (2022)

European agricultural guarantee fund (**EAGF**)

The financial value which EAGF shared for the **income support** and **market measures** in 2019 was €43.81 billion. (European Commission, 2022)

Income Support is separated among different projects, schemas like:

1. **"The basic payment** is an income support scheme for farmers engaging in agricultural activities. Separated in two payment schemes: The basic payment scheme (BPS); The single area payment scheme (SAPS).
2. The 'green direct payment' (or '**greening**') supports farmers who adopt or maintain farming practices that contribute to EU environmental and climate goals.
3. **Young farmers** are given a helping hand to get their business off the ground with start-up grants, income support and benefits such as additional training.
4. **Additional optional schemes** represents the help for small and medium sized farms, farmers who operate in areas of natural constraint and sectors undergoing difficulties". (European Commission, 2022)

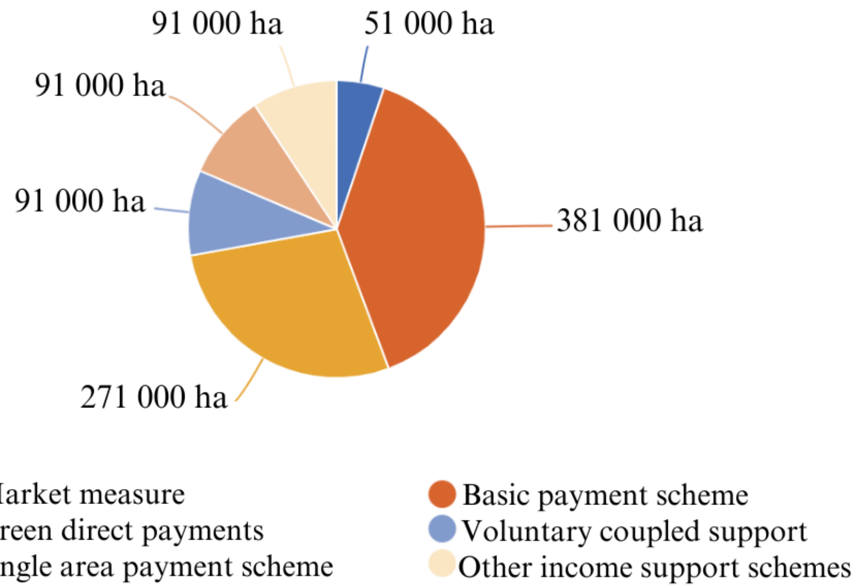

Figure 11: EGAF spending on Income support and Market Measure in these areas in 2019

Sources: Official website of European Commission (2022)

Second part of EAGF are **Market Measures** which contributes farmers in this way:

1. "**Public intervention** is where products are purchased and stored by EU countries governments or their agencies and then sold back on the market at a later date".
2. "**Storage of products by the private sector,** the EU can also provide support to private sector operators in paying for the cost of storage of their products for a determined period of time".
3. "**Exceptional measures** are used when a crisis or the threat of a crisis has arisen and a specific response is needed to prevent a sudden drop in prices and/or mitigate its consequences".
4. "**Sector-specific aid schemes**, the aim to improve the capacity of EU agricultural sectors to adapt to market conditions and increase their competitiveness and sustainability".
5. "**Market monitoring**, and its information, which compliments EU market measures, aims to provide more market transparency, and is compiled and made available through market observatories and the agri-food data portal". (European Commission, 2022)

European agricultural fund for rural development (**EAFRD**) as the **second part** of the CAP funding also known as Second Pillar has objectives which focuse on:

1. "Improving the competitiveness of agriculture,
2. Encouraging sustainable management of natural resources and climate action,
3. Achieving a balanced territorial development of rural economies and communities".(European Commission, 2022)

These objectives are mostly met by joined forces of "national and regional rural development programs (RDPs), which are co-financed by the EAFRD and the national budgets of EU countries". (European Commission, 2022)

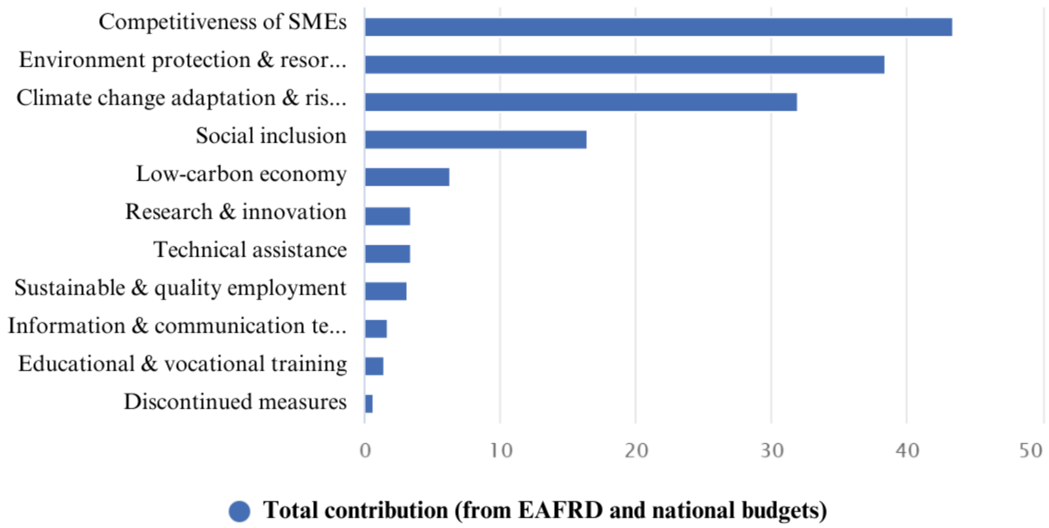

Figure 12: Rural developments spending commitments by theme 2014- 2020

Sources: Official website of European Commission (2022)

In the present and future of the CAP according to European Commission (2022), "The EU's multiannual financial framework (MFF) for 2021-27" prepared "for the common agricultural policy (CAP) amounts to €386.6 billion, divided between two funds (often referred to as the "two pillars" of the CAP)" presented above by EAGF and EAFRD.

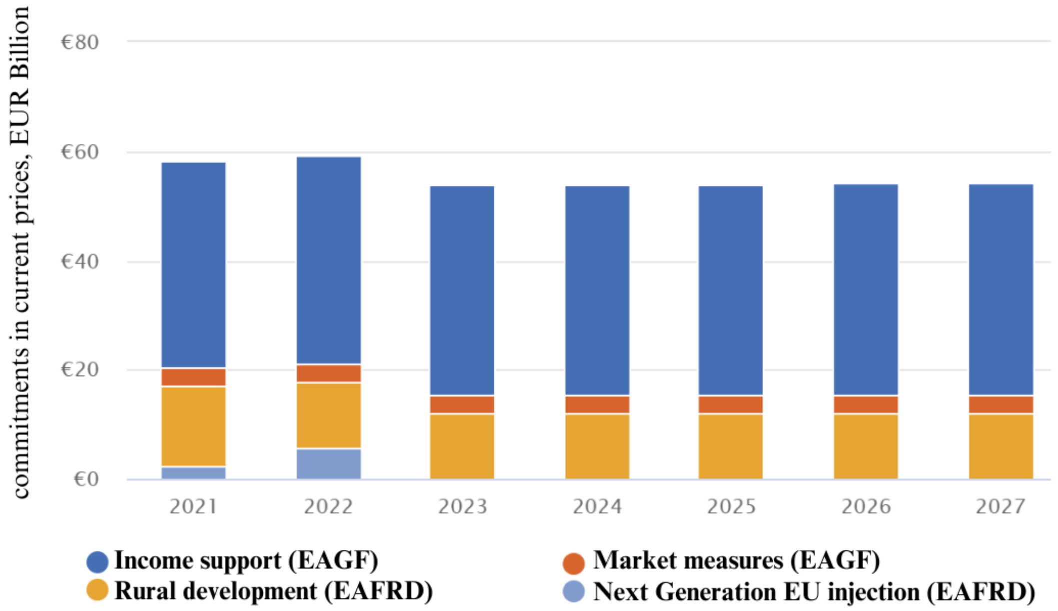

Figure 13: CAP's allocation 2021 -2027

Sources: Official website of European Commission (2022)

The objectives for new agricultural policy inside CAP and planned period from 2023-2027 are:

- "To ensure a fair income for farmers;
- To increase competitiveness;
- To improve the position of farmers in the food chain;
- Climate change action;
- Environmental care;
- To preserve landscapes and biodiversity;
- To support generational renewal;
- Vibrant rural areas;
- To protect food and health quality;
- fostering knowledge and innovation".(European Commission website, 2022)

Strategic plans of the CAP adopted on 23 December 2020 continued to be used until 2022 even new regulation 2021-27 MMF come in place, in order to have "smooth transition to the future framework". The idea of strategic plans made synchronization between two Pillars (funds) better which will include the ideas of European Green Deal and the Farm to Fork Strategy. On top of that, climate actions will have the most crucial roles with 40% of total CAP fund. (European Commission website, 2022)

4.3 The Process of EU Enlargement and Agriculture

So far we could see how important agriculture is for every member state inside EU and for EU itself. It took many years for CAP to evolve in much more complex and efficient system which changed its structure and direction every time it accepted a new member and additional external pressure conditions.

European Commission (2022) shed the light on two more issues which come with enlargement:

- “its significant size (share of GDP and the high proportion of the population active in agriculture);
- its structural deficiencies (subsistence and semi-subsistence farming)”.

When some country starts its process of joining EU, European Commission assigns agricultural experts whose job is to help candidate and potential candidate countries through impediments, objectives and expectations which come with accession especially in the field of common agricultural policy (CAP) and rural development. For these countries to have initial smooth way of applying all necessary measures, rules, project and fund it is needed to fulfil two major criteria. First one is **Economic aspects** of one country where market economy is well developed with “clear property rights, functioning markets, price liberalization and macroeconomic stability.” (European Commission website, 2022) This market should be prepared in advance for all competitive pressures and forces which can be found inside EU, and for all products which are imported from outside. Second important aspects is **Community standards** which represent administrative capacity that one country should possess when it comes to agriculture. That administration covers different “areas of agricultural policy formulation, analysis, implementation, support payment and control”. In the last 10-15 years CAP’s big emphasis is on “formulation and implementation of pre-accession rural development measures and later community rural development programs”. Legislative side of these capacities should be adopted in order to pursue all needed aspects like “organic farming, quality policy and other horizontal aspects”. Levels in the market have to have organized instruments so they can manage all required “marketing standards, price reporting, quota management, producer organizations and public intervention”. (European Commission website, 2022)

Next step represents **Accession negotiations** in agriculture, they are different from the country to country and EU needs to manage integration with some transitional measures so the procedures for future payments and support for rural development can be implemented. Many bidding rules come along the way which are vital for proper work of the CAP in any new country. Some systems take responsibility in implementing rural development actions like the Integrated Administration and Control System and some agencies. Members have to accept standardized agricultural products into Common Organization of the Market (COM). (European Commission website, 2022) According to European Commission (2022) "**Stabilization and Association Process (SAP)** sets out common political and economic goals, supported by contractual, economic and financial instruments to strengthen reforms and accompany the transition process in the Western Balkans". Western Balkan countries have special treatment when it comes to this process. The aims of this process are:

1. "Stabilizing the countries politically and encouraging their swift transition to a market economy;
2. Promoting regional cooperation;
3. Eventual membership of the EU".()

Every country goes through the different stages and from "prospect of membership", over "potential candidate" and then to "candidate", that all depends on the stages if those countries successfully accepted and implemented EU and international standards in given time. (European Commission website, 2022) The idea of SAP was presented in 1999 but truly implantation started at Thessaloniki Summit in June 2003, where the parts of the process are listed in ways of:

1. "Contractual relationships (bilateral Stabilization and Associations Agreements)
2. Trade relations (autonomous trade measures)
3. Financial assistance (the Instrument for Pre-accession Assistance- IPA)
4. Regional co-operation and good neighbourly relations". (European Commission website, 2022)

Autonomous trade measures

Serbia and other countries of Western Balkan have big benefits from "free entry" (with a few exceptions) in the sense of establishment of free trade on contractual bases in the EU, where is no "customs duties or quantitative restriction". (European Commission website, 2022)

Regional co-operation

Is important factor when it comes to SAP because it strengthens the relationship between neighbouring countries with efficient trade, better infrastructure and general stability in that area. (European Commission website, 2022)

Instrument for Pre-accession Assistance- IPA

Since 2007 the program represents financial assistance for potential candidate countries which has its evolution and it has replaced programs like PHARE, PHARE CBC, ISPA, SAPARD, CARDS that some countries used them more or less. (European Commission website, 2022)

Countries which get this kind of financial assistance are divided into:

- "**Potential candidate countries** in the Western Balkans (Bosnia-Herzegovina, Kosovo under UN Security Council Resolution 1244/99)
- **EU candidate countries** (Turkey, Albania, Montenegro, **Serbia** and the Republic of North Macedonia)". (European Commission website, 2022)

IPA can be divided in two time horizons from 2007-2013 is time when "IPA I" was in the power, and from 2014-2020 there was "IPA II" whose big part represents IPARD.

The **IPA I** consists of 5 different components. The potential candidate countries can use first two of them and EU candidate countries can use all of them. These five components are focusing on:

1. "Assistance for transition and institution building;
2. Cross-border cooperation;
3. Regional development;
4. Human resources;
5. Rural development". (European Commission website, 2022)

The **IPA II** on the other hand has a period of seven additional years (2014-2020) in which European Commission prepared and allocated rewards toward Serbian institutions, NGOs, companies and individuals through the various funds 1.539,1 billion of Euros. The idea of this instrument to go even deeper into politics of the EU-enlargement with focus on the diverse sectors that are drivers of targeted idea "such as democracy and governance, rule of law, and growth and competitiveness". (European Commission website, 2022) In the Annex II "*Thematic priorities for assistance*" published from Official Journal of the European Union as the part of "*Regulation (EU) No 231/2014 of the European Parliament and of the Council*" on 15.3.2014 the main focus is largely extended on the following topics:

1. Creation of good public administration by removing old and politically supported practice with the enshrinement of meritocratic principles and professionalism that will lead to suitable administrative procedures, which effect will be positively projected on "functioning market economy and a more competitive economy" as well good synchronization of EU and governmental financial institutions. (p.21)

2. Formation and support of the institutions that will keep the "order to secure the rule of law" by "establishing independent, accountable and efficient judicial systems, including transparent and merit-based recruitment" that will fight "against organised crime and corruption". (p.21)
3. Offering the space and funding to "civil society organisations and social partners' organisations" as well as "professional associations" that should be free to encourage better connectivity between "Union-based organisations" and "public and private actors". (p.21)
4. Ascension of the education at all levels and in all social groups in throughout life. (p.21)
5. Support in institutions "employment and supporting labour mobility" of young people and all "under-represented groups" who are willing to have an "investment in quality job creation" by doing high quality, suitable training for easier transfer and requalification to a more attractive job opportunities. (p.21)
6. Reconstruction of the institutions and groups who are trying to offer the service "to marginalised communities such as the Roma" or other group that could be under some kind of discrimination act, by giving them adequate "health care and social services". (p.21)
7. Investment in the transportation and infrastructural projects which will in many facilitate "mobility, sustainability, reduced greenhouse gas emissions, relevance to connections with Member States, and coherence with the Single European Transport Area". (p.21)
8. "*Improving the private-sector environment and* ***competitiveness of enterprises****, including* ***smart specialisation****, as key drivers of growth, job creation and cohesion. Priority shall be given to projects which* ***improve the business environment****.*" (p.21)
9. Modernisation with emphasis on "research, technological development and innovation" that focus its projects on "promotion of networking and collaboration". (p.21)
10. "*Contributing to the* ***security and safety of food supply*** *and the* ***maintenance of diversified*** *and* ***viable farming systems*** *in vibrant rural communities and the countryside*".(p.21)
11. "*Increasing the* ***ability of the agri-food*** *sector to* ***cope with competitive pressure*** *and* ***market forces*** *as well as to progressively* ***align with the Union rules and standards****, while pursuing economic, social and environmental goals in balanced territorial development of rural areas"*. (p.11)
12. Preserving and enhancing the quality of the natural surroundings in terms of creation and implementation of the policies whose work will be based on "resource-efficient, safe and sustainable low-carbon economy". (p.22)
13. "Promoting reconciliation, peace-building and confidence-building measures".(p.22)

At the Table 3 bellow, funding allocation for “climate change” relevant projects reached 60% of the IPA 2014-2020 budget and with 21,86% (336,5 Million EUR) for institutions, projects, companies and private persons related to “competitiveness, innovation, agriculture and rural development” have been invested.

Table 3: Key Figure of Indicative Funding Allocation 2014–2020 for Serbia: 1.539,1 billion EUR

Serbia (Mil.EUR per year)	**2014**	**2015**	**2016**	**2017**	**Total 2014-2017**	**2018**	**2019**	**2020**	**Total 2018-2020**	**Total 2014-2020**	**Of which climate change relevant** (%)
DEMOCARCY AND RULE OF LAW	80,4	143,3	106,7	109	439,4	96,5	78,6	78,1	253,2	**692,6**	
Democracy and governance	52,9	115,7	60,3	36,8	265,7	67,8	78,9	34,4	180,7	446,4	
Rule of law and fundamental rights	27,5	27,6	46,4	72,2	173,7	28,7	0,0	43,8	72,5	246,2	
COMPETITIVENESS AND GROWTH	98,6	79,8	96,1	103,2	377,8	159,4	150,8	158,8	469	**846,8**	
Environment, climate change and energy	74,7	0,0	0,0	78,2	152,9	65,1	103,8	0,0	168,9	321,8	60%
Transport	0,0	64,8	0,0	0,0	64,8	0,0	0,0	0,0	0,0	64,8	
Competitiveness, innovation, agriculture and rural development	5,0	15,0	68,7	25,0	113,7	70,8	47,0	105,0	222,8	336,5	
Education, employment and social policies	19,0	0,0	27,4	0,0	46,4	23,5	0,0	53,8	77,3	123,7	
Total	**179,0**	**223,1**	**202,8**	**212,2**	**917,2**	**255,9**	**229,4**	**236,9**	**722,2**	**1.539.1**	

Sources: Official website of European Commission (2023), “*European Neighbourhood Policy and Enlargement Negotiations (DG NEAR): Serbia - financial assistance under IPA: Key Figure*”, Available at: https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/overview-instrument-pre-accession-assistance/serbia-financial-assistance-under-ipa_en

DG Neighbourhood Policy and Enlargement Negotiations with assistance of Member States and IPA countries are funding and monitoring the IPA II 2014-2020 has a part of which is the “**Instrument for Pre-accession Assistance for Rural Development** (**IPARD**) and focuses on rural areas and the agri-food sectors of countries in the process of joining the EU.” (European Commission website, 2022)

The objectives which EU wants to reach with the IPARD are:

- “making their agricultural sector and rural areas more sustainable
- aligning them with the EU's common agricultural policy.”

The amount of financial support of EU that was available for IPA II 2014-2020 is €946 million. It is important to point out that user countries also provide part of the money for these projects, as well as benefiters (private companies or farmers). Basically IPARD is financed from 3 different sources.

Table 4: Indicative IPARD Budget as Initially Planned in 2014 (amounts in Million EUR)

	2014	2015	2016	2017	2018	2019	2020	Total
All Countries	74	94	112	203	211	227	233	1154
Albania	0	0	13	14	12	16	16	71
Montenegro	0	5	5	6	7	8	8	39
Macedonia	5	5	5	6	10	14	15	60
Serbia	0	15	20	25	30	40	45	175
Turkey	69	69	69	148	148	149	149	801

Sources: European Commission website (2022)

According to European Commission website (2022), “**IPARD programs** are based around **measures** set at European level.

- Measure 1 – "Investments in physical assets of agricultural holdings" helps farms invest in buildings or technologies;
- Measure 3 – "Investments in physical assets concerning processing and marketing of agricultural and fishery products" seeks to ensure projects in food processing companies to meet EU safety and environmental standards;
- Measure 4 – "Agri-environment-climate and organic farming";
- Measure 5 – "Implementation of local development strategies – LEADER approach" finances local action groups implementing their bottom up local development strategies;
- Measure 7 – "Farm diversification and business development" is for rural businesses and farming families seeking to develop non-agricultural activities;
- Measure 9 – "Technical assistance" supports training, analyses, programme monitoring, capacity building and preparation of local action groups”.

Potential Candidates and candidate countries are free to request funding from European Commission for certain programs by presenting the way how they would be implemented and what effect they would have. After they get approval, national institutions and IPARD agencies would manage, transfer the money and monitor the execution of the applicant's (users) projects. This way IPARD directly works in support of national institutions and governance in rural development. (European Commission website, 2022)

4.3.1 Examples of EU Enlargement and What Can Serbia Learn From it?

In modern history of EU, many countries joined in the last twenty years. According to publication of European Commission, Luxembourg: Publications Office of the European Union in their publication from 2014, "*Enlargement of the European Union*", the 3 biggest accession waves (in 2004- Cyprus, Czech, Republic Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia; in 2007- Bulgaria, Romania; in 2013- Croatia) merged in today's EU. With Croatia, EU compose out of 4 Million square kilometres and around 500 Million people. (p.3) In their other publication "*The European Union explained: Agriculture* "from 2016 supported of Delegation of the European Union to the Republic of Serbia, they added that in EU at that moment EU had 11 Million of the registered farms that 18 Million people are constantly working on, having that in mind around 44 Million workers are employed in agricultural and food sector. (p.4)
From this simple numbers and relations, we could see how big a role agriculture as the industry has during accession process of enlargement of EU. Therefore it will be given some examples of the countries which had and still have big impact on development of EU agriculture by adding its own in the system like Poland and in opposite direction, or the country like Hungary is taken as the example because it has compatible economical and agricultural situation in compression to Serbia. Finally, Slovenia can serve as great example since it shared same political, legal, social and cultural during the second half of 20th century in common state SFR Yugoslavia.

4.3.1.1 Poland

According to Csaba Csaki and Attila Jambor policy study from 2009 called "*The Diversity of Effects of EU Membership on Agriculture in New Member States*" **mostly** new member states (NMS of 2004- Cyprus, Czech, Republic Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia) back than from 2003 until 2007(3 years after accession), **lost around three percent of utilized agricultural area** (UAA) but "**on average share of arable land increased by 1%**". (pp.3-4) In case of Poland, Latvia and Lithuania percentage of UAA either stayed the same over the time or increased over the time by 16% and 6%. (p.4)
Other important resource determinant in agriculture is an agricultural **labour force** that **drastically decreased** in all NMS of 2014, for example in Latvia by 39%, in Hungary by 22% and in Slovenia

by 12% in proportion of the year 2003 before they entered to EU and 2007, **on the other side Poland** even raised their agricultural labour force by around **20 000 workers** or 1%. So migration or age of the people from rural and agriculturally occupied areas to urban ones in NMS of 2004, made a big impact since yearly 250 000 agricultural workers stopped with their farmer jobs in 4 years' time span. (Csaki C. & Jambor A. 2009. p.4)

When it comes to production, in the work of Miloš Milovanović "*Possible Effects of EU Integration on Serbian Agriculture*" from 2016, Poland as other NMS 2014 countries had the significant decrement of the share in percentage of agriculture in national GDP, in 2004 was 4% , in 2007 it was 3,4% and same value stayed in 2011. The reasons for such waning in case of Poland was recovery of other major industry sectors that carried a burden of transition to EU and not that efficient agriculture in compassion with EU 15 countries. (pp.142-143) To have better perception of how transition influenced agriculture after the accession to EU, we can see the **major progress** in **agricultural production output**, that Judit Kiss represented in her analysis "*Some Impacts of the EU Accession on the New Member States' Agriculture*" from 2011, where she showed that crop production, as dominant agricultural product of NMS countries, "EU-27 crop production increased from around 10% in 2000 to almost 17% in 2010, meaning that crop production in the NMS increased at a higher speed in value terms than crop production in the EU-15". (p.51) In that scenario of **production value at basic prices of the crop and animal output** Poland had one of the biggest **production successes**, when from year 2003 **crop prediction value** went from 6902,4 Million EUR to over 9800,7 Million EUR in 2010, whereas **animal production value** 5499,6 Million EUR to 9029,1 Million EUR so 61% more in same time period. (Kiss, J. 2011, pp.51-53)

After products have been produced, there is need for **export** and during the period of 2007/2003, Poland skyrocketed to 309%, where the import followed with 285%. (Csaki, C. & Jambor, A. 2009, pp.12-15) It is important to point the structure of agro-food **export** in which significant **share consists of raw materials** increased for some country like Romania and Cyprus, while Poland decreased export of raw materials for 10%. Poland had the highest **share of raw materials in agricultural import** through the years. (Csaki, C. & Jambor, A. 2009, pp.13-16)

Finally, although overall the number of agricultural workers has declined, **"real agricultural income per worker**" for Polish farmers in the comparison of the years 2009/2000, has magnified by 107, 3%. (Kiss, J. 2011, p.54)

Basically, Poland had lot of sectorial challenges during the process of accession and especially after they became member state, since they brought so much farmers with its assets into EU. They managed very well "concentration of holdings", trade with EU and general enlargement of major production agricultural products like cereal and meat. But, In the first years like member state, they had struggles with not matching the needs and desired standards in rural development, as well as growing concern regarding natural environment.(Milovanović, M. 2016, p.145)

4.3.1.2 Hungary

According to European Commission's "*Statistical Factsheet- Hungary*" from 2021, with population of 9.769.526 people of which 1.813.276 in predominantly rural regions that worked back in year 2016 on 4.671.000 ha utilised agricultural area (UAA), formed in 430.000 agricultural holdings with 394.420 agricultural workers, 78,4% of who are older than 45. (pp.1-17) By going back in time period when Hungary was accepted (2004) to EU and few years afterwards we will realise, how general numbers have big similarity with current statistic of Serbian agriculture.

Starting point in the significance of **agriculture in GDP** of Hungarian economy, that in year 2000 (5%), 2005(4%), 2007(4%) had its drop, but as "leaders of cereal production in the region, raised their yields by 8% and 35% from 2000-2003 to 2004-2007, respectively". (Csaki, C. & Jambor, A. 2009, pp.6-10) For production of meat, situation at first view did look good in period from 2000-2017 since it went down by 23%. (Csaki, C. & Jambor, A. 2009, p.9) The good side of accession in animal output was that the production value at basic price went in year 2000 from 2089,7 Million EUR to 2260,3 Million EUR in 2007. (Kiss, J. 2011, p.53) To understand how big impact EU had on development of agricultural production in 2020 animal output concerning current basic prices of 2920,6 Million EUR and crop output in current basic prices had value of 5400,4 Million EUR that represents 1,8% and 2,3% of total value of livestock and crop production in the EU27.(European Commission :Statistical Factsheet- Hungary. 2021, p.2)

When it comes to **trade** in Hungarian case, it growth with the production. From 2005 to 2009, most of the NMS had negative trade balance (more import than export) and in nearly all NMS's that had gradual growth through the years intra-EU27 countries trade and that negative balance do not follow in the trade out of EU27, but not in the case of the Hungary where it had positive balance in year 2005 of 217 Mil EUR to 709 Mil EUR in 2009. (Kiss, J. 2011, p.59)

Finally the **agricultural income** generated from all internal and external sale, like in all of the NMS-12 (61,2% from 2000-2009) has grown each year the moment they entered in EU. Hungary fortunately had same destiny where in comparison of the 2000 and 2009 by 33,5%.(Kiss, J. 2011, pp.54-55) Nearly the same trend continued in the recent years from 2016 to 2020 agricultural income presented with " Indicator A" (is the real net value added at factor cost of agriculture per annual work unit (AWU)) where that index has grown around 23%.(European Commission :Statistical Factsheet- Hungary. 2021, p.10) The reason for such increase in agricultural payment is due to “**to the introduction of CAP** and **related subsidies** as well as the result of price adjustment to European levels”. (Csaki, C. & Jambor, A. 2009, p.28) Additionally it is important to mention that Hungary had problems with inefficient and incapable governmental institutions whose job was allocation of resources granted by CAP. After accession in 2004, Brussels requested the withdrawal of the financial support as the reaction from EU, to the unfulfilled agricultural objectives agreed by both parties. Consequences of such a move from EU, was “inability to pay CAP subsidies to farmers”, that ultimately lead to negative political, social and economic reactions.(Milovanović, M. 2016, p.149) So Serbia should focus on careful development of institutional transformation so it can in full potential embrace and implement all objectives need for good administrative governing, during and after accession.

4.3.1.3 Slovenia

Slovenia as an example was one of the ex-SFR Yugoslavian states which shared same social, juridical, political standards, and fortunately for Slovenia had the highest level of economic development among other five federal states.
58,1% of Slovenian population lives in 72,8% **predominantly rural** regions and 57,4% out of all labour force works and generates 48,5% of GVA. (European Commission: Statistical Factsheet- Slovenia. 2021, p.3) Keeping that, according to Csaki, C. & Jambor, A. (2009), Slovenia did not significantly change its UAA after accession in 2004, meaning it went from 510 000ha in year 2003, to 500 000ha in year 2007. (p.3) On that portion of land at the same time period number of agricultural holdings fell from 77.200 to 75.300 (Kiss, J. 2011, p.55), following with a slop in agricultural labour of 12%.(Csaki, C. & Jambor, A. 2009, p.4)
What is interesting about Slovenian agriculture is that it possessed “16 times higher **asset endowment** than Latvia in 2004” which accounts 16022 EUR per UAA and average of NMS-12 was in that time nearly 4000 euro/ha of farm asset, that proves again on how high a level Slovenian agriculture was. (Csaki, C. & Jambor, A. 2009, pp.4-5) So it's not surprising that **total production value** (at basic price) of the crop output in year 2003 was 431,4 Million EUR and by year 2007 it reached 598,9 Million EUR, which is a big increase. Parallel, total production value (at basic price) of the animal output fell from 512,8 Million EUR to 509,2 Million EUR (Kiss, J. 2011, pp.51-53), which in some way follows the agricultural share in GDP, where it went from 3,3% in 2000, to 3% in 2007 and finally 2,2% in 2014.(Csaki, C. & Jambor, A. 2009, p.6, Milovanović, M. 2016, p.151) In 2020, proportion of production value of crops and animal output at basic price are 681 Million EUR and 487 Million EUR, that shows constant growth in crops production even after so many years.(European Commission: Statistical Factsheet- Slovenia. 2021, p.7) Therefore it looks

like Slovenia moved the focus in the structure of agricultural production "toward crop production".(Csaki, C. & Jambor, A. 2009, p.12)

Regarding the **trade**, Slovenia had the same reaction like most of the NMS-12 after the accession as significant deficit in agricultural trade, (although nominal value of agricultural export and import "increased by approximately 20% in 2000-2007 on NMS level year by year"), by "almost tripled its negative balance of 2003 to 2007".(Csaki, C. & Jambor, A. 2009, pp.15-17)

Dualism inside the structure of agricultural holdings concerning the size has been proven again, since in year 2010 a 95,6% of UAA are in possession of holdings that have 20 or less hectares, meaning that 4,4% of UAA are in control of big AH, and that disproportion continued to grow in year 2016 by 5,8%.(European Commission: Statistical Factsheet- Slovenia. 2021, p.16)

Even if agriculture didn't have that big **portion of GDP** in years before accession, that chapter in negotiations was left as the final one just two years before accession as the one of important ones since it was the part of "financial package of membership".(Lavrač, V. & Majcen, B. 2006, p.8)

From the view point of Emil Erjavec in his article "*EU Accession Effects and Challenges for Agriculture and Agricultural Policy in Slovenia*" from 2005, just two years before accession (December 2002) Slovenia had strenuous and inauspicious **negotiation proposals** regarding the most important "packages area: direct payments, quotas and reference quantities as well as in the rural development area", that by systematic and out of box approach have been transformed in favour of Slovenian agriculture.(p.11) Concerning the direct payment as one of the major packages proven by older members, the idea was that in the period of nine years (2003-2013), Slovenia reached support progressively from 25% to finally 100%. As big milestone for negotiation the other future NMS, Slovenia suggested "**top-up**" strategy by government, where in the 1st year (2003) will top up national financial support by "75% of the level applied in the present Member States", in year 2004 would add 10%, 2005 additional 5, and so in next two years, managing 100% in year 2007 of the "level of direct payments'. (p.11) Managing this process, Slovenia succeeded in important competitive preparation for fast changing common market of which they became a part. That had big pressure on the government's budget, but it secured financial stability of its farmers. Afterwards, such strategy EU offered to all new NMS.(p.11-12)

During that accession period, as we motioned above, Slovenia had difficult time synchronizing **national agricultural legislation according to EU's**. What came across as the big challenge according to Ornella Kurmić and Ramona Franić's article "*Using Slovenian Experience in the Croatian Agricultural Policy Adjustment to EU Requirements*" from 2005, was formation of the bases for successful implementation of the legal aspects for "regulating veterinary and phytosanitary measures and food safety", even though Slovenia had high agricultural knowledge and technical support, compared to other countries. Additionally, in structural preparation of agriculture, Slovenia made a clever move by investing more than 100 Million EUR in development of rural area received before final accession in 2004, which was stable cornerstone for "**2004-2006 Rural Development Program**" prepared from European commission and additional 150 Million EUR ready to be allocated in well-constructed institutional rural agriculture. (p.33)

Finally, the generated force during accession process for Slovenia is the **negotiation team**, which was composed out of "many public and private representatives of agribusiness sector", as well as the support from "relevant scientific and research organizations" and institutions, that contributed with its experience, knowledge and ideas that could enable successful integration of Slovenian agriculture into EU. On top of that one additional determent, that should to be motioned, is **political stability** and joint intention of all relevant political subjects at the time, to have Slovenia as new member state as common goal. (Milovanović, M. 2016, p.153)

Conclusions that can be summarized from above examples and Csaki, C. & Jambor, A. (2009) are:

- The general positive impact on the agriculture after accession into EU, especially in the aspects of reconstruction of production, more income generated from the same products produced, with possibility for better and various trade options.
- Different countries have different reactions on "pre-accession policies, post-accession policies and the way of implementing CAP", due to diverse set ups inside their market, system, institutions, development level, history.(p.40)
- New member states had big opportunity after accession to expand their products to other markets which lead to potential new customers that are willing to pay more than the domestic customers, but on the other side, they can await increase in the competition pressure not just outside their national borders but inside, because of free-trade zone. That is the reason why agriculture companies need to come up with new competitive strategy that is suitable for present and future constellation of market forces.
- Additionally "vertically coordinated food chains including hypermarkets" at business level makes whole impression of the external factors nearly instantly more detailed and opportunistic for producers and for consumers, with slightly better position of consumers that can enjoy the diversity for the same or less money.(p.40)

- In case of Poland and Slovenia, we can see how good preparation regarding the organization and good consolidation of agriculture for upcoming requests of new emerging market played a crucial role.
- We saw from above examples and analysis of the authors that in general with introduction of additional subsidies, income of the farmers have been increased, but major benefits from these subsidies got AH with bigger percentage of UAA and production output, than the small ones who should by default got extra support from direct subsidies which is not effectively distributed due to administrative constrains and lack of governmental intention for small farmers, which can additionally be seen in the case of Pillar 2 funds where small farms are not taken into consideration.
- So overall, EU continuously is gaining experience from the first older member states, together with group of these we analyzed, so that they can use it for the newest member states and the ones in the process of accession, but they can agree that system sometimes does not cover their (NMS) needs of the "poorest segments", that makes "poverty and competitiveness of the agricultural sector" continuously major problem.(p.40)

Major comparative analysis of Kiss J. (2011) and Csaki, C., and Jambor, A., (2009) made understandable presentations of different agricultural parameters and patterns in a specific time frame. Those parameters represent employment in agriculture, percentage of agricultural production in GDP, agricultural production performance, trade, and many others. On the other side Szabó, M. (2008) pointed out some difficulties and misbalances in Hungarian agrarian national politics, due to wrong objectives and focus on unimportant sectors in the pre-accession period. In order to go through the accession process much smoother in the agrarian sector, there is a need for a previously strong basis at national agrarian policy created on rules of CAP as it happened in the case of Slovenia, explained by Volk T., Rednak M. and Erjavec E. (2012). Erjavec E. (2005) added how strategic thinking and good negotiation skills could create a model in direct payment which afterward was used on other upcoming member states. Still, Kumrić O. and Franić R. (2005) mentioned that the biggest retentions during the pre-accession period were veterinary and phytosanitary standards.

5 Proposition Development

In the previous chapters I have explored the present literature covering the wider the importance of institutions as the creator of surrounding in which organizations (companies) have been established and respond to such administrative and market environment. These decisions have been based on many factors that come not just from outside (macro, micro) but also from the inside, on how that company is constructed, what their product is about, their strength and weakness as well as their future development goals. In this thesis focus was placed in agriculture as an important industry as well as relationship and impact it was made from European Union to Serbia, and its response back. The process of Europeanization and its influence on the agricultural sector is different from candidate countries to candidate country during the time of CAP's development and acceptance of financial supports through the various funds at the time. That is the reason why the following chapters are an introduction of the empirical part of this thesis. Firstly it is described Serbian agricultural history as a foundation, followed by deeper analysis of Serbian animal and plant production, comparison of costs and earnings with EU farmers while having agricultural trade with EU and non EU countries. Finally the practical examples of Serbian agricultural companies, complemented with the more nuanced elaboration of the dynamics of value chain and differentiation strategies that different actors undertake in this process. As there is an obvious literature gap in the research that sheds a light on the potential impact and these process will impact the agriculture Republic of Serbia and its farmers in the process of accession, therefore I have formulated a following research question that will be the focus of my research:

How market strategy and value chain of agricultural Serbian companies has been influenced during the process of Serbian accession to EU?

In particular, I am interested in the local actors, and as I will show in the next chapters how big changes in the institutional system of one country (laws, funds, agenda) could motivate all actors of, in this case, agriculture as an industry, to change their business strategy. With such a change new extensions of the potential markets come, where Serbian farmers and firms have the opportunity to enlarge its market share and to win additional profit, by applying right market strategy. I expect that firms that focus more on differentiation strategy and high quality products as result of the new external conditions, will have better chance to reach higher number of customers in EU market. That is how first proposition is created.

First Proposition: Accession to EU gives Serbian agricultural companies opportunities (new market, accessibility, funds) to use resourcefully and more planned their value chain which possible leads to higher organizational gain.
The process of accession of Serbia to the EU is a long lasting process that in last couple of years managed to bring its real application with help of diverse administrative tools as, changes in the institutional work, laws, usage of different self-proven procedures and finally financial allocation of the budgets given from EU. Such externally conditioned surrounding empowers farmers and agricultural firms to use their value chains in more resourceful and planned way, which possibly leads to creation of higher organizational gains like better internal and external logistics, bigger capacities, modern technology, and as the result higher profit and bigger profit margin than in the period before accession.

Second Proposition*:* The process of the accession of Serbia to the EU forces different parts of the value chain of agricultural companies to adapt, primarily resorting more to the preference of **differentiation strategy**.
The accession of Serbia to the EU necessitates significant adaptation across various segments of the value chain within agricultural companies. This adaptation focuses predominantly on adopting a differentiation strategy. Agricultural companies must adjust to new market conditions, regulatory standards, competitive pressures introduced by EU integration. This involves enhancing product uniqueness and quality to distinguish themselves from competitors, thereby meeting the heightened expectations of EU markets. Companies are compelled to innovate and improve their offerings, ensuring they provide high value-added products that appeal to discerning customers. Consequently, this strategic shift drives comprehensive changes in business operations, from production practices to marketing approaches, ultimately aiming to secure a competitive advantage with their value chain in the expanded and more demanding EU marketplace.

Third Proposition: The problems which are existing in this cohesive structures **(legal and administrative ones during governmental enforcement of the Law**) that resulting slowing the progress towards the less efficient process of adaptation of the value chains and strategy towards what should be.
Throughout big part of this thesis, within the analysis of different parts of Serbian agriculture there is constant link of that inefficient usage of old and putting in power the new governmental tools. Such tools are used by different governmental institutions that are not able to synchronize the national laws, regulations and standards with requests from EU, but in the most of the cases do not

have capability and capacity (good working force and technology) to execute CAP or EU manner. Additionally, political maturity and understanding is not at high level which are presented in many cases when it comes to the foresight toward farmers during hard years, as well as the smart allocation and use of funds given by the European Union. Therefore for most of the farmers and agricultural companies it is hard to improve first its technical sides of its value chain in order to put to work their planned strategy that can direct the company’s steps toward EU’s market levels and customers. These levels could be understood as different standards prescribed from EU institutions regarding the quality of the products or the process of production, along with standards which local and foreign customers have in their mind in terms of needs, wants and requests at that or upcoming moment.

6 Methodology

Methodology for this paper is based on the quantitative and qualitative type of research with bases on multiple case studies with exploratory intention. For the first case study “Serbian Agriculture” is used more quantitative data collection from various official governmental institutions and their yearbooks, reports, analysis and projects as the stable and broader starting point of “real-world context“ for other three cases studies “Agro Eko Voće, Medino, Moravac“ that which intention is to show more narrow picture at micro company- firm level with data collected from semi-constructed interviews, analyses of their reports, bills as well as authors’ personal observation of theirs headquarters, production and storage places. (Yin, 2014, p. 18).

1. Data collection

In order to answer the research question, a case study method was selected. This method is adequate for this type of research as it provides a deeper understanding of the object of the research, yet is limited in terms of the potential of the outcomes to be generalized. It is exploratory, and provides a deeper understanding of the effects of the macro changes (accession Serbia to the EU) on the micro level subjects (Agro Eko Voće, Medino, Moravac) in question. A case study method is based on the case study of Serbia as the basses and surrounding in which all three companies exist, work and share more or less same direct or indirect influences of the external forces. Going further there are three more case studies for all three companies based on in-depth semi-structured interviews and analysis of different companies’ documents, in particular relevant legal frameworks. Such multiple case study gave author the possibilities to address “*examination of processes and outcomes across many cases, identification of how individual cases might be affected by different environments, and the specific conditions under which a finding might occur*.” (Chmiliar, 2010, p.583)

In terms of the interviews, the selection of the interviewees was determined by the research question itself, and the fact that these three companies represent three different branches of agricultural companies, one being a primary producer (raspberries) with potential of becoming producer of the products with added value, the second being a producer of a product with a higher added value (honey) as the premium product itself on global market and established variations of the products with even more added value and the third and final one is the fodder as the close linkage to the crops production, which is the most profitable branch in Serbia, connecting plant production and meat production as the second most important branch in agriculture.

The first company, “Agro Eko Voće” is a company that grows and processes raspberries into different products. Božo Joković is the founder and CEO and largest shareholder in the company, which was established in year 2013 in city of Arilje where the fields and headquarters are located. The second company “Medino” is a Serbian leader in honey collection and honey products export in the whole of Europe, established in 2004. Its representatives Ivan Božović is a CEO and managing director of production, a Nenad Grujić is manager of the production and Katarina Tirnanić, marketing manager.

The third company, “Moravac”, whose CEO is Marko Đurđević, focuses mainly on fodder production for Serbia and neighboring countries, but their other activities include the pig and poultry production, as well the trade of field crops internationally. This company has been part of “Cmana Holding” since 2014 when the fodder factory was put in the power.

Table 5: Short Display of Case study Companies

Name of the Company	Agro Eko Voće	Medino	Moravac
Location of Headquarter	Arilje, Serbia	Krnjevo, Serbia	Velika Plana, Serbia
Industry and Branch	Agriculture, Fruit production	Agriculture, Honey processing	Agriculture, Feed production
Main Products	Fresh Raspberries, Frozen forms, Juice,	Honey, Bio Honey, Propolis, Bee bread	Animal feed, Bio animal feed
Sources	Interview, Website, Firm’s documents, Promo material	Interviews, Website, Firm’s documents, Promo Material, HQ tour	Interview, Website, Firm’s documents, Promo Material, HQ tour

The interview guide considers questions that would encourage interviewees to share details about their company, the establishment of the company and present challenges, the inner structure and their marketing strategies for the future. The same interview guide was applied to all three companies as a basis for the conversation, however, there was enough space provided for the companies to address specific aspects of their particular production. The contact with the relevant interviewees was established through email correspondence and all the interviews were, due to the relaxation of the COVID-19 safety measures, conducted in person, in Serbian language, recorded and transcribed. The interviews took place in the office spaces of respective companies in July 2022. All three of the interviews lasted around one hour, and participants were informed about the data protection protocols of the University of Vienna and agreed to be recorded. Furthermore, some of the data was translated into English language for the purpose of the analysis and direct quotation in the text.

In terms of the documents analysis, the main sources of data were the legal frameworks, statistics, projects, publications in particular the Serbian legal frameworks and relevant European legal frameworks from different governmental and inter-governmental institutions. Statistical data, gathered from the official institutions, in particular the Ministry of Agriculture, Forestry and Water Management of Serbia, Statistical Office of Serbia were also a part of the data the case study is based on. All these relevant frameworks are listed in the reference list. Secondary resources, such as analysis of the legal framework, were used as a part of the case study to support the conclusions. In particular media interviews, company websites and advertisements near the selling points are illustrative of the changes in the marketing strategies, therefore they were included in the analysis. Based on all information gathered, it will be detailed fashion created Value plates and Porter's 5 forces frameworks for each of firm that should give as closes as possible answers the research question and confirmation/denial of prepositions.

7 Empirical Part

In this Chapter I explore the Serbian agricultural sector in-depth in order to build a foundation for a case study. Starting with historical significance of arable land in Serbia, not just as stream of income or the simple job but more like cultural inheritance. Continued with demographical analysis that shows the structure of the farmers as singular producer and agricultural companies as more compressed and integrated organisational working form and theirs allocation of the resources most importantly the land. Afterwards the focus was shifted toward the production and processing sectors of plant, meat and honey in order to present the official statistical data through the last five to ten years when the Accession Process of Serbia to EU take huge steps forward in order to investigate possible impact on these two sectors. On top of that, the display and comparison of different important values as the input's prices (costs), earnings of farmers, as well as the prices of arable land that together draws real "on field" picture of the working environment of Serbian agriculture. After that one of the most important aspects that connects this paper is the trade between Serbia and EU and other non-countries. In the end there's a conclusion with institutional, administrational, lawful and financial significances of acceptance of CAP at the beginning, and all other programs - most importantly IPARD that came up as a proven way to prepare agriculture in the new EU member states in terms of the financial support, administration, law, acceptable standards and much more.

7.1 Case selection: Serbian Agriculture

Agriculture for the people in Serbia is not just a piece or arable land where they live and work, or an industry that helps the Serbian economy to be stable and to support GDP. For them, it is much more. For Serbian farmers, agriculture has a deeper meaning and above all, the value that cannot be measured in Euros. It is more like tradition inherited and expanded through generations. For that tradition, they fought through the centuries, fought against the occupation, different politics, climate, diseases, all for a better future and their food. That is the reason why Serbian farmers have such a strong bond with their land. And the country, as an institutional form, should preserve that, and help its people nurture such a connection, mentality, and way of living because, at the end of the day, every human being needs healthy food to live. That is the reason why the government and ordinary people should show more respect for farmers.

7.1.1 History of Serbian Agriculture

According to Gabor Demeter's publication "*Agrarian Transformations in Southeastern Europe*" from 2017, one of the breaking moments in the development of the Balkan nations at so many levels like political, geographical, social, demographical, financial and agricultural took place during 18th century. These aspects have been influencing each other through the taxation, regional exchange, "social stratification" and "agrarian system (including landholding size, product structure and state intervention into land-tenure systems)" that were undergoing the pressure of Napoleonic Wars from one side and Turkey from the other side. Napoleonic Wars with its need for food motivated the local landlords "ayans" to move their sphere of interest from Istanbul to trade towards Europe and that as a consequence made first step toward decentralization and economic transformation of this territory. (p.31)

Agrarian structure under Ottoman occupation started to lose its inner strength and meaning by a shift in social structure of the ottoman representatives "4 dahi in Belgrade "and landlords as well an increase in population of Christian folk. With new idea of going from "existing prebendal system" to the system where personal property of the landlords became kind the basis for stable inflow of the taxes for Ottoman government, it formed new social-agrarian group "feudal elite" that were in constant conflict with producers and occupier's establishment. The rise of feudal elite was constant until government nurtured the "internal borrowing" that included "tax-farming", but that come to the end when "state – owing to a shortage of money" became the issue, supported with modification of "financial policy" and inflation as the reaction on the "supply shortages due to over export". (Demeter, G. 2017, p.32)

The data presented by Demetre (2017) from Ljušić, R.(1986) by the year 1834, only 10% of the whole Serbian (Christian) population possessed more than 3 hectares of arable land. The expropriated Ottoman land was not totally spread to the private holders, it kept certain percentage as the governmental land.(Vučo, N. 1983, pp.289-294) In addition, in order to create a kind of foundation that will have the effect of harmony in the new state structure, which is largely dependent on agriculture, Knez Miloš, the Serbian duke, imposed a new law called "okučke". That law was adopted in 1836 and brought crucial social, political, and economic progress by stipulating that the "house of the peasant and a small parcel of land cultivated by a pair of oxen became unalienable and could not be a mortgage". (Dementer, G. 2017, p.56). In the beginning, Knez Miloš had a monopoly over livestock export to Europe (mainly to Austria-Hungarian Empire), and even with bad infrastructure between the cities and limited amount of export licenses, Serbian duke took the trading chance with livestock as one of the demanded products for export at that time, since "the general price index of meat was 50% higher in Europe in 1830 than in Serbia (compared to the decrease of 20% in 1890 and 5% in 1910)" and earned reputation for it.(Dementer, G. 2017, pp.56-57 based on data from Bairoch, P. 1973, p.20) The consequence of the second and the final time Knez Milos fell from the political top of Serbia in 1860, was the general liberalization of the economy in the direction of "further centralization of administration" and the important agricultural law where "land became subject of mortgage", which "augmented social mobility and made capital accumulation possible in agriculture." (Dementer, G. 2017, p.59)

Nearly one hundred years later, right after WW2 according to John B. Allcock et al. article called "*Serbia*" from 2023 at official website Encyclopaedia Britannica, Yugoslavia copied a socialist economic system based on institutions in the USSR. Such a system allowed an indorsed chance for the growth of individual enterprises. Unfortunately, after 1953, grouping into collective farms was not so popular. The Socialistic Party first made the migration of the people from mountainous regions of Bosnia and Montenegro into Vojvodina, and afterwards continued with the state-created gigantic firms and that spread with upcoming years relatively fast all over the country. Equal expansion of modernisation within those boundaries was not equal, therefore productively and bureaucracy northern states like Slovenia and Croatia had a lead that state like Macedonia and some parts of Serbia could not reach for longer period of time. The SFRY or the Socialistic Federal Republic of Yugoslavia, continued with its "self-management" or "self-ruling" political model for the next 30 years.

As Ivan Lončarević shed the light in his part "*Prices and Private Agriculture in Yugoslavia*" of the book "*Soviet Studies* " from 1987, where he stated that old measure of today's UAA was "tilled land" that included all crops and plant based production, was limited (by the law) up to 10ha for private person and that is one the reasons why in 1984 so called "peasant farms" still 83% of that land had in their possession and generated "72% the net output of agriculture (92% in 1954)". That kind of situation made farmers to use 50% of total production for their needs, and as consequence the barraging power of the private sector at agricultural output market was not that solid and assisted with 60% share. With general urbanisation of the cities and industrialization in nearly all sectors, the need for working force was drawn from rural population who predominantly lived from agriculture.(p.628) Such trend, with governmental big farms on one side, and big numbers of small farmers made a basis for upcoming event and the problem of dualism in agriculture we have today.

During the 80s and 90s, agriculture in Serbia moved its focus "from livestock to crop production and from commercial to subsistence provision". Unfortunately, modern technology production of consumer durables started to decrease and to move in a more simple products sphere. With such

tendencies, Serbia and other countries of ex-SFRY experienced low discipline, inefficiency, minimal internal trade that resulted in loss of raw materials, and what is worst, the participation in solidly formed EU market. Therefore, it was not possible for Serbian companies to compete at a world market. During the unarticulated policies of Yugoslavian president Milošević toward Bosnia and Herzegovina, the EU imposed an embargo that led to deficiencies "of food, goods, and fossil fuels". (John B. Allcock et al. 2023, Britannica website).
As A. Nikšić would describe in her article "*Back When Serbians Were the World's Poorest Billionaires*" from 2016, it was the time "when inflation in Yugoslavia reached its peak in January 1994 at 313 million percent, a series of strict economic measures brought it to its end. Finally, it made sense again to carry dinar banknotes in Serbia for longer than a day". (Website Vice).
This economic roller coaster in upcoming years ended the profitability of over 20.000 Yugoslav (Serbia and Montenegro) companies. The natural response to that was privatization, which began in the 90s and ended in the early 2000s (John B. Allcock et al. 2023, Britannica website). Nowadays many would agree that that privatization was not in the best interest of the people and the workers of the companies. This supports information that "only about one third of output was derived from private production, which was largely concentrated in agriculture, retail trade, and services". (John B. Allcock et al. 2023, Britannica website).
After the sanctions in 1999, Serbians and Montenegrins were bombed in NATO airstrikes that ruined vital parts of different kinds of industrial facilities, infrastructures, and most importantly, took people's lives. Even after humanitarian aids, the harmed economy and bad memories are still visible. (John B. Allcock et al. 2023, Britannica website)
After democratic elections in the 2000s, when the EU enabled again exchange in the trade, the EU presented the new possibility to countries of South-eastern Europe to open negotiation for a "Stabilization and Association Agreement," which would provide greater opportunities for trade with the EU. (John B. Allcock et al. 2023, Britannica website)

7.1.2 Analysis of Serbian Agriculture

According to K. Đurić et al. (2019, p.1) "the importance of agriculture in the Republic of Serbia is clearly seen from its share in GDP generation, share in total employment, and many other indicators. Nevertheless, so far, no economic analysis of the agricultural policy indicating its effects on farmers' income has been carried out in the Republic of Serbia."

7.1.2.1 Land structure, Demography and Social Aspects of Serbian Agriculture

The most important subject of agriculture is undoubtedly the **land**. There are different types and categories of soil. Mostly they are distinguished by their fertility and purpose. As the Statistical Office of the Republic of Serbia would describe (2020, p. 209), "utilized agricultural area (UAA) is a land area used for agricultural production. This includes arable land, orchards, vineyards, permanent grassland and other agricultural lands."

Serbia has around 5.000.000 hectares of agricultural land, where arable land has a portion of 74,1%, plantations/orchards take 5,3%, vineyards cover 0,6%, permanent grassland with 9,9%, an pastures with 9,5%. (SORS, Statistical Yearbook 2020, p.207) On the other hand, through the farming industry, it can be seen how some laws either tried to group farmers in bigger land portions, whereas other laws prohibited grouping. On top of that, Socio-Communistic Party, during the 50s, expropriated land from big owners and shared it with the poorer ones or added it to the state's own enterprises. Those are all reasons why we have this trend today, where over 85% of total family holdings have less than 10 hectares, where the average family farm has 4,5 ha of agricultural land, the details of which can be observed in *Figure 14*. (A.Škorić et al. 2013, pp. 12-13).

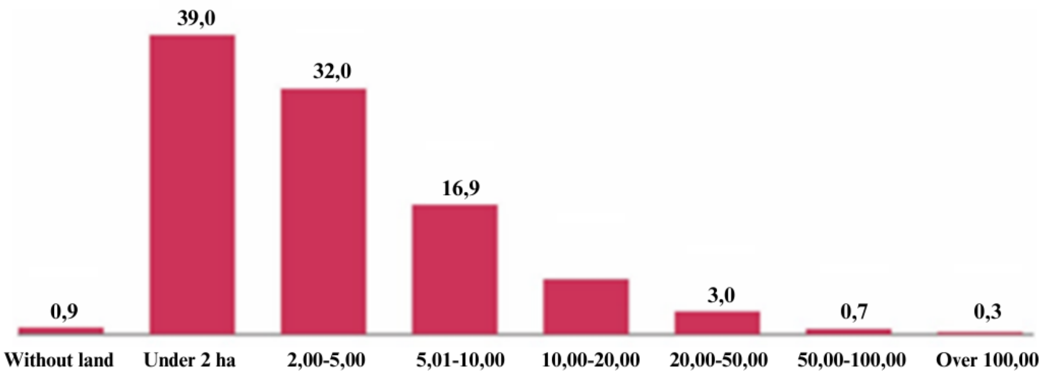

Figure 14: Structure of Family Agricultural Holdings (FAH) According to Utilized Area (%)

Source: Statistical Office of Republic of Serbia (2021), "*Statistical Year Book 2020*", p. 22

Currently, the **population** of Serbia is nearly 7.000.000 people (including Kosovo*). From that number, around 223.100 (55%) are formally employed in the agricultural sector and 188.300 (45%) informally employed (SORS, *Bilten*, 2021, p. 64). Around 62.2% of employed in agriculture are female and 37,8% are male (SORS, *Bilten*, 2021, p. 32). It is important to point out that Serbia with accession to EU should be in for a decline of **agricultural labour**, since the most of the countries after accession to EU lose between 8% (EU-15) and 15% (NMS-12), and for courtiers similar to Serbia like Latvia, Slovakia and Hungary more than 20%. (Csaki, C. & Jambor, A. 2009, p.4) In rural area employment from sector of agriculture happened to decline in period from 2003-2006 on average of NMS by 1,48%, and shifted most of that rural employment to service sector or industry sector of rural area, on top of that migration from rural to urban area since 90s had its own share. (Csaki, C. & Jambor, A. 2009, p.31)

In Serbia there are 631000 **agricultural holdings**, where 99,5% are in the form of family agricultural holdings (FAH), and 17 per cent of those are held by women (FAO, Serbia, 2021). According to findings in article called "*Available Agricultural Area and Ownership Structure of Holdings in the Republic of Serbia*" of full professor Nada Trivić at department of International Economics and Business at University of Novi Sad, published in year 2020, out of 100% of total agricultural holding registered, 99,71% are FAH, and they own 83,84% of total UAA, and on the other side agricultural holdings of legal entities and entrepreneurs (AHLEEs) are 0,24% registered as the agricultural holdings (AH) and they possess 16,05 % UAA, finally agricultural holdings of entrepreneurs (AHEs) represent 0,05% of all AH, owning 0,05%. (p.293) Going deeper in this thematic, she found out that if we divide ownership structure of AH into three groups "by size of the property - small ("less than 5 ha"), medium ("5-20 ha") and large ("more than 20 ha")", we will see following represented on *Table 6*. (p.297)

Table 6: Ownership Structure of FAH and AHLEE with Proportion of the UAA owned in Republic of Serbia

Size of AH / Ownership Type of AH	Small holdings **up to 5 ha**	Medium holdings **between 5 – 20 ha**	Large holdings **over 20 ha**
Proportion of FAH (99,71% of total AH registered = 100 %)	70,93 %	24,31 %	3,84%
Proportion of UAA (83,84% of total UAA owed by FAH = 100 %)	27,67 %	41,77 %	30,55 %
Proportion of AHLEE (%) (0,29% of total AH registered = 100 %)	28,17 %	18,21 %	46,99 %
Proportion of UAA (16,1% total UAA owed by AHLEE = 100 %)	0,15 %	0,58 %	**99,27 %**

Sources: Trivić, N. (2021), pp.298-300

To understand the problematic of dualism in the structure of Serbian agriculture we can observe that 25,61% of UAA comes from FAH in portions bigger than 20ha and 15,96% of UAA are in possession of AHLEE, which combined make 41,57 % of total UAA, a significant part of which is owned by agricultural companies which in general are small in number of registered AH(0,26%). With such UAA leverage AHLEE has a big impact on production and general stability of Serbian agriculture. (Trivić, N. 2020, pp.293-300) Therefore, the example of Hungary (5%), Lithuania

(10%), Latvia (8%) and their increase in the number of large scale farms with share of land bigger than 100ha after 3 years spent EU (Csaki, C. & Jambor, A. 2009, p.24), Serbia should put more effort with subsidies and policies which will lead to better balanced and stable agricultural market and production, meaning more support toward small and medium scale agricultural holdings for their higher chance for real competitiveness in future EU market. Maybe one of the strategies which Serbia should work on, is what Poland managed "due to the consolidation of the small farm structure". (Kiss, J. 2011, p.55)
The **age structure** of the population in agriculture is very unfavorable for the future by knowing that 54,4% are older than 45 (SORS, Statistical Yearbook 2020, p.231). The FOA explains even more into detail when it comes to the categorization of the "poor farms". The first sign of the "aging of farms" is when sustainability is carried by only one person, as well as family when farms are owned by farmers who used to be working outside the agricultural industry and/or have been not working for longer period of time. Moreover, categorization could be explained by the migration of people from urban to rural areas. Such decisions are mostly made by elders, pensioners, or to a lesser extent, younger families, who are willing to start their life in rural surroundings with alternative activities on a small agricultural farm. The third category of population in rural areas is the one that seeks financial support from industries outside of agriculture. (2021, Family Farming Knowledge Platform-Serbia) With such age structure of Serbian agricultural holdings, it can be expected as it was in most of the NMS-12 countries (31,2%) and especially Slovenia (21,1%) to be "decreased significantly between 2000 and 2007". (Kiss, J. 2011, p.55)

An important aspect of the rural population is certainly the **level of education**, and from the information gathered from the bulletin of Statistical Office from 2021, it is calculated that from around 1.056.900 people who are living outside the urban area, 57,12% have formal or no education at all. (SORS, 2021, p.51) Therefore, in order to create a better basis for the development of this industry, especially now in the situation where Serbia is in the process of accepting EU laws, the government has to make a long-term strategy the goal of which will be the overall improvement in education suitable for modern trends and transitions in agriculture.

7.1.2.2 Plant and Livestock Production

The agricultural sector plays an important role in the Serbian economy and labour market. Based on collected data in "*The Report About the Situation in Agriculture in the Republic of Serbia in* *the Year 2021, Book I Horizontal overview* " written by Jevtić, M. & Terzić, T., published in year 2022 by Serbia The Ministry of Agriculture, Forestry and Water Management (MAFWM) it can be seen that in the last 5 years (2017–2021) there is a generally steady growth going from 7,3%, 7,7%, 7,2%, all over contributing to 7,8% in 2020 and 2021 to the Serbian GDP that accounts 409 354 Million of RSD. It is crucial to take into consideration the rise of the prices of the agricultural products combined with recorded decline in activity of whole agricultural sector in year 2021, which makes agriculture the only sector with negative contribution to GDP in that year. (pp.12-13)

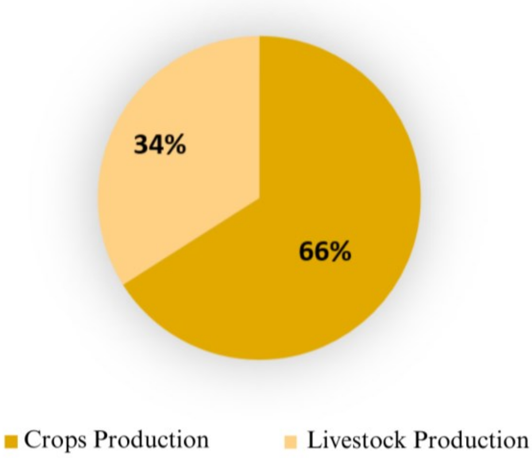

Figure 15: Total Value of Agricultural Production

Source: SORS (2021), "*Statistical Yearbook 2020*", p.207

From data presented by SORS in 2021 at "*Statistical Yearbook 2020*", utilization of agricultural area in 2019 was divided in such a way that arable fields and gardens occupy 74,5%, the second utilized area is under permanent grassland 19.5%, followed by fruit plantations with 5,3%, and finally vineyards with 0,6% and other agricultural land 0,1%. (p.215)

Plant production in Serbia has had slow development in last 10 years (2012-2021), it seems like it reached its full potential in production capacity back in 2018, and in next 3 years that growth had its own variation from season to season and type of the plant. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.17) (Jevtić, M. & Terzić, T. 2022, p.17) Better representation of that whole time period could be seen on *Figure 16* down below.

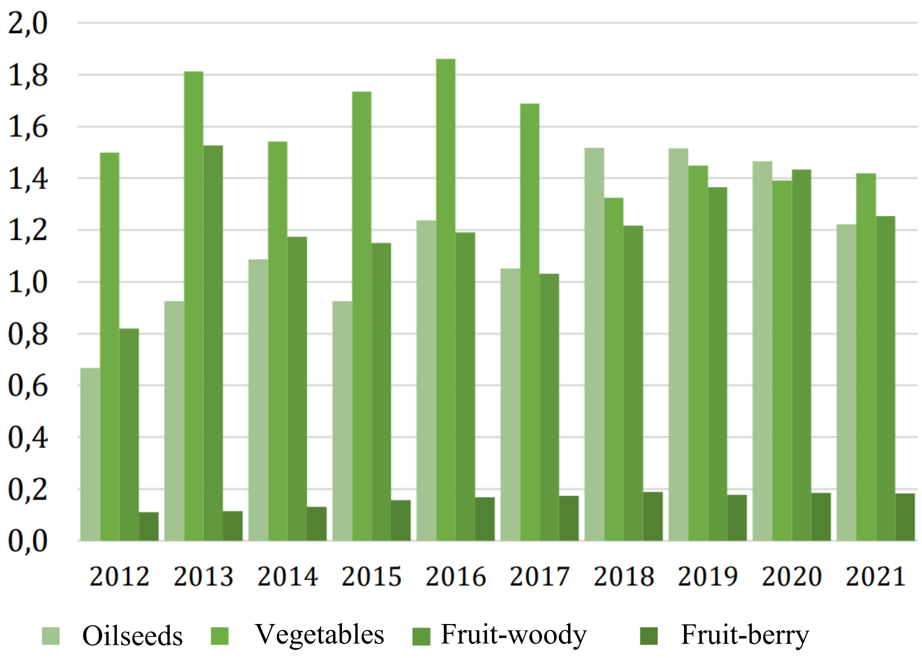

Figure 16: Production of Oilseeds, Vegetables, Fruit-woody and Fruit-berry (Mil. t) for period 2012-2021

Source: MAFWM,(2022) "*The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021*", p.17 Jevtić, M. & Terzić, T. (2022) "*The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021*", p.17 , Available at: http://www.minpolj.gov.rs/download/ZK-2021-I-knjiga.pdf?script=lat

Going deeper into sown arable land areas, we come across proportions from *Figure 17*.

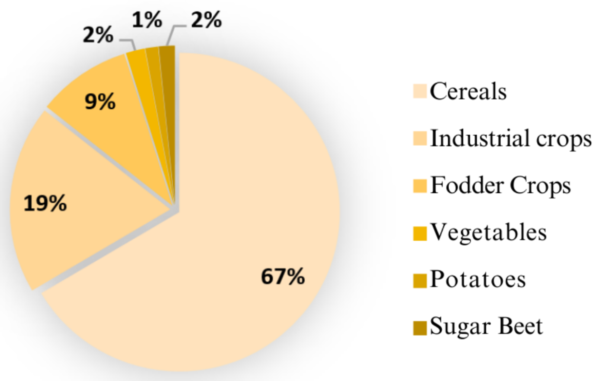

Figure 17: Sown Areas by Species of Crops in Serbia in year 2019

Source: SORS (2021), "*Statistical Yearbook 2020*", p.215

By following the flow of total production from 2018 and 2019 we would notice the decrease for wheat by 13,8%, sunflower by 0,6%, and sugar beet by 0,9% and but the maize increased by 5,5%. On the other side, compared to 2018, an upturn in number of livestock units was noticeable 0,8% as well as the increased cow's milk production 1,1%, while meat production decreased 0,1% .(SORS, Statistical Yearbook 2020, p.207).

After generally positive **production volume** outlook in year 2020, negative slope happened in production volume in year 2021, where cereal and vegetable segments fell by 10,2% , fruit growing 10,4% and finally in viticulture production volume downsized by 2,9%. The main reason why production volume fell is since in the group of cereals, the maize as the wildest spread plant had smaller production volume by 23,4%, followed by the fall of industrial cops 14,2%, but as the positive balance to such season contributed production of wheat and vegetables that have grown by 19,8% and 7,8% compare to 2020.(MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.15) (Jevtić, M. & Terzić, T. 2022, p.15)

The yield as the reflection of amount of tons produced per hectare (t/ha) of UAA could be quite asymmetrical since the sown areas are expending and the yields are lower. That kind of season happen in 2021 with the wheat cultures like cereals due to much smaller production of maize as the most widespread industrial cereal. The right representation of negative slope could be seen on the following *Table 7*.

Table 7: Total Surface of UAA used for Yield and Production of Plants during year 2021.

Comparison of 2021 with 2020 in Plant production	Total Surface of UAA in 2021 (ha and %)	Yield in 2021 (t/ha)	Production in 2021 (t and %)
Cereals	**1,77 Mil. ha** which is **(+1,7%)** than 2020	**5,8 t/ha** which is **(-12,1%)** than 2020	**10,2 Mil. t** which is **(-10,6%)** than in 2020
Maize **(Maize for fodder)**	**1** Mil. ha **(+2,4%)** 33120 ha **(-7,1%)**	5,9 t/ha **(-25,3%)** 15,8 t/ha **(- 24,4%)**	**6,02** Mil. t **(-23,4%)** 0,524 Mil. t **(-29,7%)**
Wheat	**600 000** ha **(+3,1%)**	5,7 t/ha **(+27,9%)**	**3,4** Mil. t **(+20%)**
Sugar Beet	**39 000** ha **(+5,4%)**	52 t/ha (+1,5%)	2,05 Mil. t (+1,4%)
Oilseeds	**(-2,1%)**	**2,6** t/ha **(-13,3%)**	**1,2** Mil. t **(-16,6%)**
Sunflower	**(-3,8%)**	2,9 t/ha (-6,1%)	607574 t **(-4,5 %)**
Rapeseed	**(-7,8%)**	3,2 t/ha (+6,6%)	unchanged
Soybeans	unchanged	2,3 t **(-28,1%)**	**(-28,2%)**

Fruits	**(-1,6%)**		
Berry Fruit **(Raspberries)** Strawberries	(-7,7%) **20 807** ha **(-13,4 %)** unchanged	 **5,3 t (+8,1%)** 3,3 t (-26,6%)	(-1,1%) **110 589 (-6,8%)** 22427 t **(**-26,4%**)**
Woody Fruit		**(-12%** by Pears, Plums, Peaches)	**(-12,6%)**
Vegetables	unchanged	**(+6,7%** by Paprika, Tomato, Onion)	**(+2%)**
Potato	(-11%)	23,3 t (+4%)	(-7,6%)

Sources: MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.15-17) (Jevtić, M. & Terzić, T. 2022, pp.15-17) and SORS (2022), "*Statistical Yearbook 2022*", pp.224-228)

Livestock production in the last 10 years shares nearly the same transition process as plant production, which is logical since these two agricultural sectors are interrelated and interdependent. Generally in year 2021 there was a smaller amount in **the number of livestock** in all groups other than sheep that made positive outcome. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.17) (Jevtić, M. & Terzić, T. 2022, p.17)

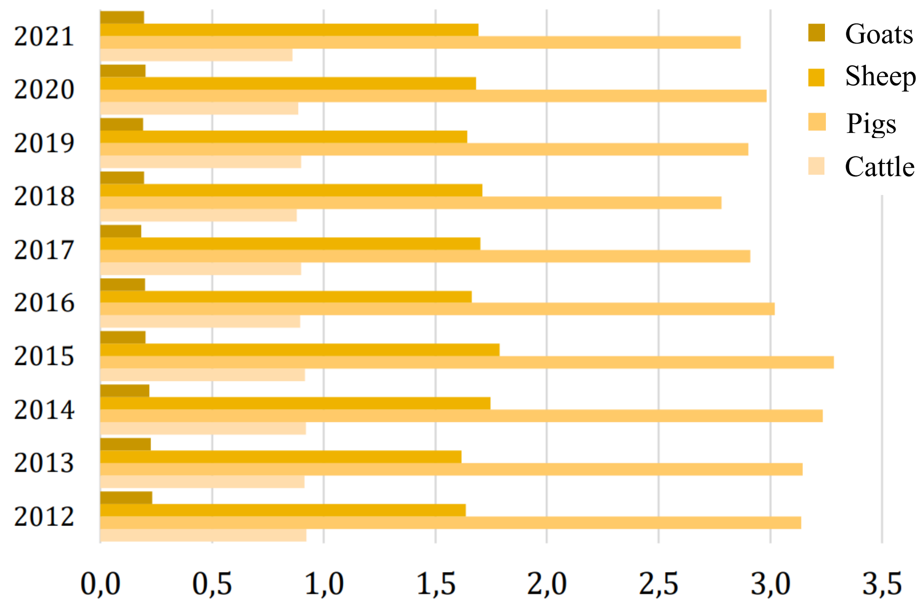

Figure 18: Number of Goats, Sheep, Pigs and Cattle from year 2012 to 2021 in Mil.

Sources: MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.18) (Jevtić, M. & Terzić, T. 2022, p.18)

Pigs as the leader in the number of Serbian livestock production in 2021 has slowed down with it is growth (by -4,3% compared to 2020) after the big shortage in 2018. As crucial aspect of the negative trend in this group, the amount of sows reached the smallest number in the last ten years. Cattle share same chronology with bare minimum in the last 10 years with number of 860 000 in year 2021. Sheep keeping had a positive production effects with 0,6% and poultry by 1%.

Table 8: Number of Livestock at Beginning of the Year, Number of Livestock Produced and Quantity of Meat Produced During 2021 (compare to 2020).

Comparison of year 2021 with 2020 in Livestock production	**Number of livestock at beginning of the year** Thousand heads (% comparison of 2021 with 2020)	**Number of livestock produced** Thousand heads (%)	**Quantity of meat produced during 2021** Thousand tons (%)
Cattle	860 **(-2,9%)**	335 **(-2,3%)**	77 **(+2,7%)**
Pigs	2 983 **(-4,3%)**	5 415 **(-4,4%)**	307 **(+2,7%)**
Poultry	15 348 **(+1%)**	62 345 **(-9,4%)**	111 **(-3,5%)**
Sheep	1 695 **(+0,6%)**	1 542 **(+0,07%)**	31 **(unchanged)**
Goats	195 **(-3,5%)**	No data	No data

Sources: SORS (2022), "*Statistical Yearbook 2022*", pp.229-230)

It is important to point out that even if at first view, production of the meat it seems to be on the rise, it does not necessary represent the positive economic reaction of the livestock farmers on the current situation at meat production market. Sometimes, farmers see a way out in selling an unplanned larger quantity of livestock in order to get the most profit, because the price of meat is very unprofitable compared to the price of initial inputs at the beginning of production, and that in next period could be even worse since the agricultural market in Serbia is not stable and effectively supported by the government.

For upcoming practical parts of this work it would be significant to mention that honey production in 2021 reached 7438 000 kilograms which is higher by 8,8% than previous year, as the causal link to such production incline is increase in the average number of bee hives per beekeeper from 7 to 8. Other important products like raw cow's milk made small down oscillation by 1,5%, raw ewe's milk has been significantly increased by 11,11%, wool by 1,6 % and egg production pretty much stayed in positive balance with 1711 Mil. units in 2021.(SORS. 2022, p.231)

In the last 20 years new branch of agriculture deserved more recognition and that is organic farming that covers 0,54% of the total farming area in Serbia, which accounts for 19 255 ha in 2018. This area is cultivated by 6706 organic producers, 500 of whom were individuals (certificate holders), and 6206 were farmers-co-operators (subcontractors). The top of the organic production list starts with fruit, cereals and industrial plants in big portions, followed by fodder, vegetables and medical and aromatic plants in much smaller portions. The selling process is mostly made through the wholesalers and processing companies. In 80% of the cases, those agreements between farmers and wholesalers are signed before the season. Generally, a small part of produced organic products is sold directly on the green market. (Penev, Slagjan et al, 2020, p.56-57) Beside that organic livestock production number shows positive ratio where bovine has risen by 31%, poultry with 55%, sheep 48,7 % and goats by 16,3%.(SORS (2022), “Statistical Yearbook 2022”, p.233)

7.1.2.3 Prices of Agricultural Products and Farmers Earnings

The prices of agricultural products could vary from different factors like in any other product market, but on top of that there is aspect of nature (weather) that can determine outcome of the season in nearly every step of the production process. Thanks to knowledge and modern technology such undesirable fluctuations could be predicted and their impact reduced or completely corrected. But in order to have that, farmers need to have proper and worthwhile infrastructure and logistic, either privately or publicly owned.

In last 10 years the price of agricultural products reached its all-time year-on-year price growth that reached in overall 21%. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.20) (Jevtić, M. & Terzić, T. 2022, p.20) The reasons to advocate that such increase are at first glance the general increase of the food at international market, escalation of the costs of energy sources (electricity, earth gas and diesel fuel), pricy artificial fertilizers, insecticides and medicines for animals. But situation is much more complex, especially in the system with not well organized institutions.

Looking at SORS “Monthly Statistical Bulletin 8/2021” from 5.7.2022, the indices of producer prices (at which farmers can sell its product) growth inside sectors, the highest price increase in first seven months of 2021(compared to first seven months of 2020) had branch of fruit and wine growing with 57,3% , followed by crop farming by 27,2%, drastically smaller the “processing from own production” branch had by around 4,7%, whereas livestock breeding had fallen in the price by -2,1% and fisheries had cut their prices by big -16,5%. (p.21)

By doing a deeper examination, it can be seen how in **plant production sector** prices went very high if we take into account that soybeans had an increase of 65,5%, sunflower by 55,2%, fruit average was up to 50%. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.20) (Jevtić, M. & Terzić, T. 2022, p.20) Additionally crops like corn and wheat that are with above mentioned soybeans major ingredients of the most fodder products and their increase in prices by 42,7% and 16,7 % impacted the prices of fodder.(SORS (2022), "Monthly Statistical Bulletin 8/2021" p.20)

In **livestock sector, indices of producer prices** did not go that high compared to plant production, where poultry price was higher by 6,6% in first 7 months of 2021 (after a long-term declining trend), cattle by 3,6% and finally calves raised their prices by 2,1%, while branch of pig had to reduce their prices by -13,3%. (MAFW, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.21) (Jevtić, M. & Terzić, T. 2022, p.21) .(SORS (2022), "Monthly Statistical Bulletin 8/2021" p.20). One of the reasons for such outcome had the parameter that shows 0 pigs have been exported in year 2020 and 2021, but import went 163 000 to 246 000 heads.(SORS (2022), "Statistical Yearbook 2022", p.229) Small growth of the prices for Serbian farmer had raw milk was about 0,1%, but reason for that is big disproportion in the export-import amounts and values of raw milk and milk powder that happened in the last 4,5 years, which devastated production of milk in Serbia and put farmers even in worse position than before. (Offical website N1(18.10.2022), "*Udvostručen uvoz mleka u prahu – za 7.000 tona dato 27 miliona €*",https://n1info.rs/biznis/udvostrucen-uvoz-mleka-u-prahu-za-7-000-tona-dato-27-miliona-e/)

The **price of the raspberries**, in Serbia called „Red Gold" since many farmers in Serbia back in the days acquired good profit (together with Serbian government from amount of money gained from international trade) by producing this fruit and since then, the purchased price from the farmers of this product has been part of negotiation between government, owners of the cool-storing places(refrigerators) that mostly have been taken as dealers(traders) and raspberries producers from the begging of the year until the last kilo is sold that year in any form. The price of the raspberries in Serbian Dinars (at average price ratio of 1 Euro equals on average 119,7 Dinars) at green market in time period 2012-2021 could be seen on the *Figure 19*.

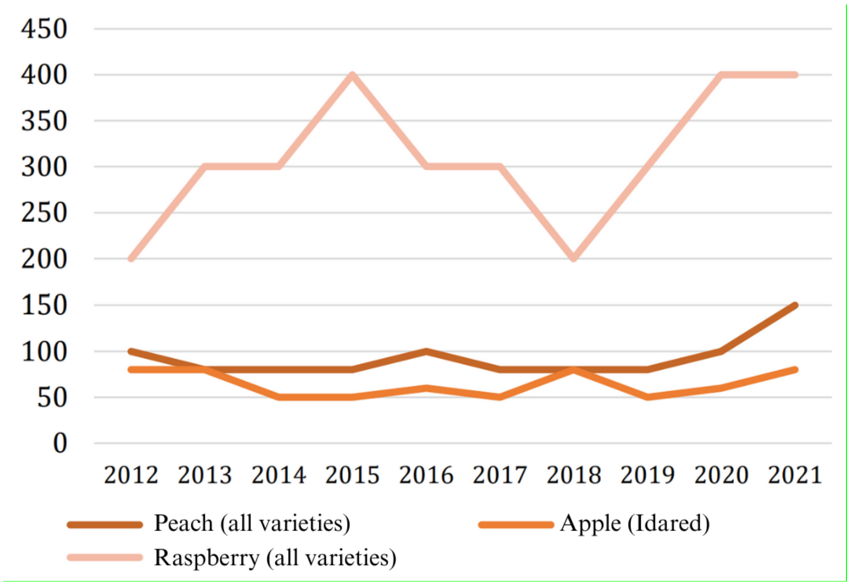

Figure 19: Dominant Prices of Individual Fruits From Green Markets (RSD/kg); 2012-2021

Sources: MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.22) (Jevtić, M. & Terzić, T. 2022, p.22)

As we can see the price at which farmer could sell raspberries to the wholesalers is 400 RSD (3,4 EUR) which is considered a good price. One of the reasons why raspberries kept the same price in 2021 from the year before is due to lack of international supply from two major competitor countries Chile and Poland, additionally due to high costs of inputs and domestic demand that stayed on effective level. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.22) (Jevtić, M. & Terzić, T. 2022, p.22)

The **price of the fodder** in the third quarter of year 2021 (comparing the same period year before) increased by 28,6% that follows the price indices of the crops of 27,2%. (SORS (15.11.2021), "Input price indices in agriculture, III Quarter 2021")

According to journalist specialized in agro business Julijana Kuzmić and the data collected from hers interviews presented at official website "Agroklub" in 2020/2022, **honey** is also one of the important products which relies a lot on exports and its production quantity has increased by 70% from year 2014 until 2021, and the number of bee hives has increased for about 40% in these seven years. Price of this valuable product is determined not just from the prices, supply and demand of the domestic and international market but the weather, that has not be necessary negative for fruits/flowers, it should be sometimes too early or too late for bees harvesting plan and many end consumers are not aware of it. So initial price in 2020 before taxes beekeeper for 1kg of honey was 5,74 EUR, in 2021 that price has its variations because of two import waves that had the price in Mai of 320,25 RSD/kg (2,7 EUR/kg) and in July 543,69 RSD/kg (4,55 EUR/kg). Such instability brought the basic price of 588,17 RSD/kg (4,92 EUR/kg) in January of 2022.

Starting point of every production process represent the **costs of the of inputs** like seeds, energy (electricity, diesel fuel), fertilizers and soil improvers, pesticides, medicament that could drastically change the production price just if one of the parameters become higher by one digit.

Highest costs portion in the cost structure of on average agricultural holding in Serbia has so called “specific costs” or costs related to seeds, chemical protection of plants, artificial fertilizers and others with (53%), followed by overhead costs (rent, electricity, fuel) with about 20%, total external costs (labor costs, land lease and interest on loans) of 11% and finally amortization costs 7% and salary costs 6%, respectively. The proportion of the costs differs from the type of agricultural branches, where branches like dairy cattle farming, pig and poultry farming give 85%, production of fodder around 65% and perennial plant production 35% of theirs spending on specific costs. Of course, when this percentage is lower, the higher overhead and total external costs are. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.46-47) (Jevtić, M. & Terzić, T. 2022, pp.46-47)

In this case costs of the inputs went very high in some cases like fertilizers and soil improvers went by 121,4% in fourth quarter 2021 compare to 2020.

Table 9: Input Price Indices in Agriculture, IV Quarter 2021 Compare to Different Quarters in 2020/ 2021 and Annual Comparison of 2021 with 2020.

	Q4 2021/Q4 2020	Q4 2021/Q3 2021	Q4 2021/Ø 2020	Ø 2021/Ø 2020
Total	**130.7**	**113.0**	**130.8**	**117.5**
Goods and services currently consumed in agriculture	132.1	114.0	**132.2**	118.1
Seeds	108.9	123.3	104.3	101.5
Energy	115.9	102.3	**114.6**	**110.4**
Fertilisers and soil improvers	224.9	170.3	**221.4**	**144.2**
Plant protection products and pesticides	106.3	99.6	106.8	103.9
Animal feeding stuffs	134.6	105.4	137.3	**128.3**
Maintenance of materials	102.9	102.1	102.9	101.0

Maintenance of buildings	111.9	105.1	115.7	108.3
Other goods and services	103.1	101.0	102.9	101.5
Goods and services contributing to agricultural investment	113.9	100.1	113.8	109.6
Machinery and other equipment	113.9	100.1	113.8	109.6

Sources: SORS (15.11.2021), "*Input price indices in agriculture, III Quarter 2021*", official website https://publikacije.stat.gov.rs/G2021/HtmlE/G20211307.html

Based on the data provided by Eurostat's second edition of "*Key figures on the European food chain*" from November 2022, EU input prices had also big increase from the year 2020 in to year 2021 which could be seen in the *Figure 20*, but not that drastically as in Serbia. Additionally, EU's input prices were in period from 2016 until 2020 very stable which represents how firm and organized EU's market and intuitions are, that directly reflects on the wellbeing and future investments of every farmer and agro-company.

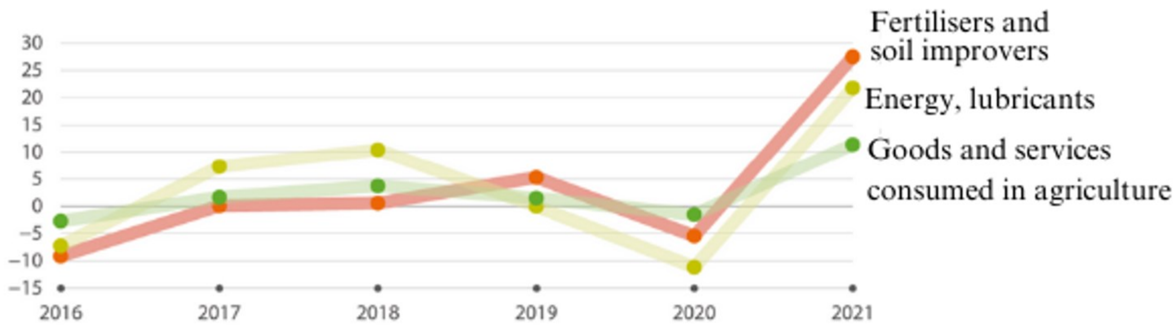

Figure 20: Annual rate of change of input price indices for the agricultural industry from 2016 until 2021 in %.

Sources: EU-Eurostat (2022), "*Key figures on the European food chain*", 2nd edition, Luxembourg: Publications Office of the European Union, printed by Imprimerie Bietlot in Belgium, p.40, Available at: https://ec.europa.eu/eurostat/documents/15216629/15559935/KS-FK-22-001-EN-N.pdf/1cb9d295-6868-70e3-0319-4725040cfdb8?version=3.0&t=1670599965263

One of the reasons and the problem why fertilizers and soil improvers made such big cost for Serbian farmers in these years, starts back in 2009 when one of the biggest companies for production of fertilizers and soil called "Azotara-Pančevo" had unsuccessful privatization like many other state owned companies at begging of 2000s. In 2013, directors of many big private agricultural companies participated in this affair that allegedly (by selling regressed and non-regressed fertilizers meant for farmers and by doing so "did not provide adequate collection guarantees") damaged the state by around 66 Mil. RSD (0,5 Mil EUR) and "Azotara-Pancevo" itself by 3,5 Mil. EUR. (Telegraf (21.3.2013), "*AFERA AZOTARA: Uhapšeno 12 osoba zbog đubriva*", Offical newspaper website https://www.telegraf.rs/vesti/604875-afera-azotara-hapsenje-12-osoba-zbog-regresivnog-djubriva) What is even worse, after 9 years since "Azotara-Pancevo" has been again taken under unprofitable state management, it came to the point that nearly 900 workers got fired since the company declared bankruptcy.(Kurir (16.07.2018.), "*AZOTARA IDE U STEČAJ: Skoro 900 ljudi ostaje bez posla*?", Offical newspaper website: https://www.kurir.rs/vesti/drustvo/3086561/azotara-ide-u-stecaj) Such event was big hit for farmers of the relatively small city like Pančevo and whole region, since the city is located in the southern part of the province of Vojvodina, which has the largest share in Serbian agricultural production, especially in the of plant production.

According to data collected from "Global Petrol Prices" and published at official website of newspaper "021" on 13.4.2020 **price of diesel fuel** in **Serbia** was 141 RSD per liter or (1,19 EUR/*l*), while **in the region** the prices of the diesel fuel per liter were much smaller for example: Austria 124 RSD (1,04 EUR),Croatia 124 RSD (1,04), Slovenia 117 RSD (0,98 EUR), Hungary 111 RSD(0,93 EUR) as well as non EU countries like: Montenegro 112 RSD (0,94 EUR), Bosnia and Herzegovina 106 RSD (0,89 EUR), Macedonia 86 RSD (0,72 EUR). To have better understanding of the structure of price formed, government from the price of 141 RSD took 58,72 RSD as fuel excises and additional 25 RSD for value added tax, which means government takes around 60% of the price for ever liter sold in Serbia. Additionally, as Directorate for Agrarian Payments of Serbia informed farmers at its official website on 1.3.2020 could in 2020 apply for subsidies for every hectare of that included 5200 RSD (43,7 EUR), separated in form of 4000 RSD (33,6 EUR) for "basic incentive in plant production" and 1200 RSD (10,08 EUR) for "60 liters of diesel fuel at price of 20 RSD". In year 2021 price of diesel went on 153,67 RSD (1,29 EUR) and government's excises 59,48 RSD (0,49 EUR), while in November 2022 price reached 221,95 RSD (1,86 EUR) which raised concerns for every household in Serbia and especially the one which income depends on farming.

The element in this equations which is not counted at first is the price of arable agricultural land. In the report from year 2022 of Serbian Republic Geodetic Authority it is clear that **prices of arable agricultural land** per hectare have been significantly larger, especially in transition period from year 2020 to year 2022. The smallest minimum prices continuously had Vojvodina Region and the highest maximal price retains Belgrade region, as it is shown in *Table 10*.

Table 10: Minimal Price and Maximal Price (EUR) per hectare (ha) of Agricultural Land's Transactions Recoded in II quarters from 2019 until 2022.

	Minimal Price (EUR)/ha	Maximal Price (EUR)/ha
	Vojvodina Region (minimal and maximal average price)	
II-2019	1258	20 492
II-2020	1925	22 783
II-2021	2054	22 922
II-2022	**2066**	29 176
	Šumadija and West Serbia	
II-2019	350	18 000
II-2020	400	19 550
II-2021	550	29 890
II-2022	570	30 000
	South and East Serbia	
II-2019	250	18 000
II-2020	250	18 000
II-2021	315	21 739
II-2022	415	27 350
	Belgrade Region	
II-2019	700	16 900
II-2020	650	17 650
II-2021	2006	30 000
II-2022	2000	**59 800**

Sources: Republic of Serbia Republic Geodetic Authority (2022)," *Report on the State of the Real Estate Market in the II Quarter of 2022*" pp.17-18, Available at: https://www.rgz.gov.rs/content/Vesti/2022/08/Kvartalni%20izve%c5%a1taj%20o%20tr%c5%bei%c5%a1tu%20nepokretnosti2.2022.%d1%84%d0%b8%d0%bd%d0%b0%d0%bb%d0%bd%d0%be.pdf

As the previous aspect of agriculture had its own illogicality when politics and institutions are mentioned, now the sale of a state-owned agricultural company on the territory of Belgrade to a foreign company is another example of it. Namely, according to Serbian newspaper “Telegraf”, Serbian institutions in 2018 decided to sell one of the last big agricultural complexes called “PKB” that “consist of 16 785 hectares of agricultural land in Belgrade Region, 70 km of canal network for irrigation, 17 000 heads of cattle and other property and machinery”.(Official website Telegraf (14.9.2018),”*Arapi preuzimaju PKB: Al Dahra kupila poljoprivredni kompleks za 105,5 miliona evra, koji vredi duplo više*”) The selling price was 105,5 Million EUR, even if the market and fair price (motioned above in *Table 9* at II- 2020 Belgrade Region 17 650 EUR/ha) just for sold agricultural land would be 296,25 Million EUR, which is nearly 300% more than the paid price, plus all other buildings, livestock and machinery. What makes the whole situation even more nebulous is the fact, that according to other Serbian newspaper “Direktno”, Serbian government in year 2021 bought off (at higher price) the land that it previously sold to Al Dahra, for the construction of the Belgrade-Zrenjanin highway, which Serbian government knew it will be needed for construction work way before they sold that agricultural land to Al-Dahra in the first place. (Offical website Direktno,(23.02.2022),” *Prodali Arapima PKB ispod cene, a sad otkupljuju tu istu zemlju!*“) Construction of that highway (since year 2018) is still in the process of negotiations and signing contracts with foreign company “China Shandong International Economic & Technical Cooperation Group Ltd” after many promises given by the highest Serbian authorities like Minister of Construction and president of Serbia.(Saša Dedeić official website Istinomer (6.8.2022),” *Šta je sa auto-putem Beograd-Zrenjanin-Novi Sad?*”)

Working force in Serbian agriculture is in downfall since the population in villages are becoming older over the years and with constant migration of young people from villages to cities makes this situation much worse. In Serbia, like in some EU countries there is certain level of dualism in regions in this case Vojvodina Region and South Serbia. We already saw how drastic disproportion is in the price of the agricultural land is. That trend could be seen in other parameters like an Average expenditure of labor agricultural holding (AH) that on average in Serbia in the year 2020 had index of 1,7 annual work units (AWU), whereas in Northern part (Vojvodina) had 1,3 AWU and South part 1,9 AWU. The reason for that are mostly bigger agricultural holdings, higher degree of mechanization and therefore specialization and less focus on livestock production. In Serbian, farming is mostly considered family business and therefore in around 86% of working force is not directly paid for its work. The types of production that pay (expenditure of labor force) their workers the most are the farms that specialize in horticulture in protected areas (3,0 AWU), fruit growing (2,3 AWU) and viticulture (3,0 AWU) and on the other side the braches which generates the most of the production value for Serbian agrarian business like crops production, dairy cattle farming, pig and poultry farming are paying for its workers less on average by up to 0,3 AWU. To present it in real values, average labor cost per hour goes in price range from 270 RSD/h (2,26 EUR/h) to 450 RSD/h (3,76 EUR). (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.42-47) (Jevtić, M. & Terzić, T. 2022, pp.42-47). In the period from 2020 to 2021, farmers of EU's member states as whole had an increase of 3,3% in agricultural factor income per annual work unit, where countries like France (15.8 %), Italy (8.1 %), Croatia (up 23.2 %) had highest increases in 2021, and on the top of the list was one more Serbian name and that is Bulgaria (up 33.7 %). (EU-Eurostat (2022), p.44) If we go a few years back in 2018, according to the report ”*EU Farm Economics Overview- FADN 2018*” published by European Commission (Directorate-General for Agriculture and Rural Development) in 2021, wage per hour in agriculture on average in EU-27 is 8,7 EUR (represents the increase of 75% since 2007), and other countries which agricultural examples we took previously like Poland is 3,9 EUR, Hungary 4,8 EUR and Slovenia as well with 4,8 EUR.(p.67)

Finally average monthly income in Serbia went from 400 EUR per month in 2017 went to 560,2 EUR in 2020, whereas on average monthly net earnings in agriculture (Agriculture, forestry, hunting and fishing) are 475,6 EUR (annually 5 707 EUR) and average monthly net earnings in production of food products are 429,1EUR, which is generally below the average income in Serbia, although it is in constant growth every year is between 6 and 9,4%.(MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.10-14) (Jevtić, M. & Terzić, T. 2022, pp.10-14)

In EU countries there is parameter called "Farm net value added" or (FNVA) is equal to gross farm income minus depreciation costs and it is calculated "FNVA = output + Pillar I and annual Pillar II payments + any national subsidies + VAT balance − intermediate consumption − farm taxes (income taxes are not included) – depreciation." Having that in mind, Polish farmers earn 11 406 EUR(and 42% of that amount comes from Direct Payment or 4790 EUR), Hungarian farmers 35 080 EUR(36% share of DP or 12 628 EUR) and Slovenian farmers accounts 7 456 EUR (42% share of DP or 3 131 EUR) which comes to conclusion that income of Serbian farmers is around 30% smaller than the smallest income in EU and 6 times smaller than the average income of EU-27. (European Commission (2021), pp.7-67) Later in the paper the "Law on Incentives in Agriculture and Rural Development" will be presented and it regulates all direct payments, investments and financial help toward the farmers and agro-companies in Serbia.

With examples from the member states of EU, Serbian farmers, agro-companies and food producers can await higher incomes mostly augmented by governmental and EU subsidies that have a goal to make all participants of agricultural market of new member states competitive and on efficient level of organization. But current situation for Serbian farmers and agricultural companies is very unfavorable.

7.1.2.4 Serbian Trade

According to the EU group in Serbia, trading represents a perfect example of how Serbia has continued benefits from an economic exchange that constantly strengthens through the integration with the EU (EU in Serbia, 2021). In the time frame from 2009 until 2020, the value of Serbian export to the EU increased 4 times, from 3,2 Billion Euros to 13,94 Billion Euros in 2021. The additional fact is that this amount of over 13,94 Billion Euros in 2021 represents more than 62,90% of total Serbian export in 2021. In the opposite direction, the import from the EU to Serbia has been even booming from 48% in 2009 to over 85% in 2021 (EU in Serbia, 2023).

In the frame of agriculture, Serbia in the most recent period of 5 years (2017-2022), as you can see on *figure 21*, its agricultural trade magnified and managed to escape the pattern (of negative trade balance) that most of the NMS from 2004 (in the first years after accession) had and in year 2021 managed recording 688 mil. EUR as agricultural trade surplus. (EU in Serbia, 2023) That represent good sign for Serbian farmers and agro-companies since they can see the potential in more opened and profitable *EU market* with its competitive products.

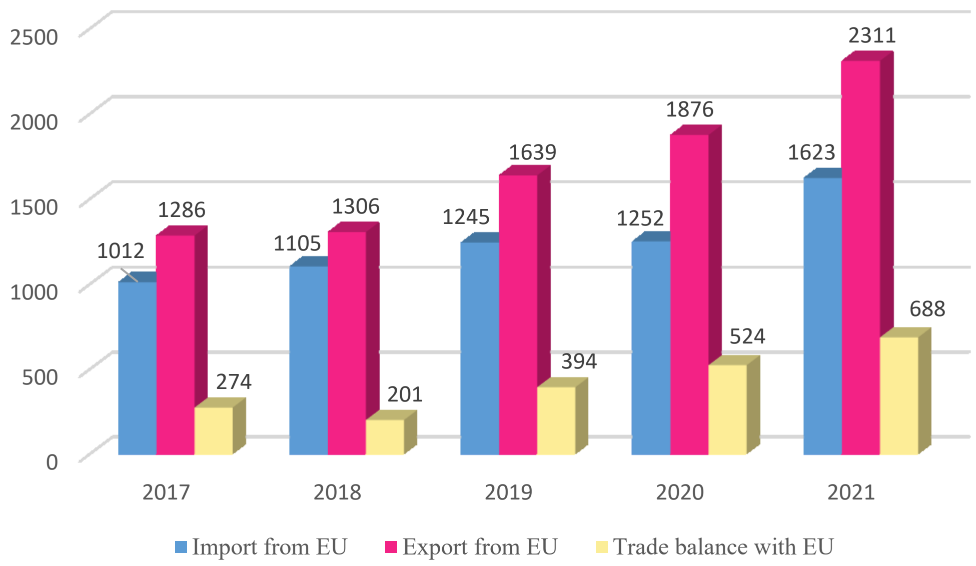

Figure 21: Serbia-EU Trade in Agricultural Products (EUR Millions)

Sources: Official website of EU in Serbia (2023) "*Trade*", Available at: https://europa.rs/trade/?lang=en

Serbian trade in the year 2021 was divided into three major trade directions. The biggest export partner in Serbian trade of agricultural and food products was EU with 53,3%, followed by market of CEFTA with 24,5% and other trading markets with the portion of 22,1%. On the import side of the Serbian trade, EU has even greater role with 66,8%, CEFTA with seven times less impact of 9,5%, and other markets account for 23,7%. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.29) (Jevtić, M. & Terzić, T. 2022, p.29) One the reasons why import and export reached all-time high in 2021 is due to general increase of the prices at world market. That can be seen by looking the unit value of exported and imported agricultural products (EUR/kg) in year 2020 and year 2021, where unit value of exported was at price level of 0,48 EUR/kg and unit value of imported was 1,33 EUR/kg, and for next year (2021) these prices were significantly higher, unit value of exported agricultural products 0,62 EUR/kg whereas unit value of imported reached 1,38 EUR/kg.(p.24.)

Other reason comes from the fact that structure of the trade which formed in that way, where Serbia imports the processed products (products with higher added value) and exports the primal agricultural products (share of 73% on average in the last 5 years), where just alone maize and frozen raspberries account for 15,4% and 12% of the export share. Serbian processed agricultural products assigned for foreign markets (export) showed its potential in the last 10 years by increasing its quantity by 250%. Comparing with primal agricultural products in the structure of the export, share processed agricultural products is nearly 3 times smaller (26,6%) than in primal ones.(p.25)

If we talk about the value in Serbian trade balance in 2021, fruit *export* generated 700 Million EUR (361,5 Million EUR raspberries alone), Cereal 626,5 Million EUR(468, 4 Million EUR from corn and 215,9 Million EUR from wheat) , tobacco and tobacco products 379,1 Million EUR and finally animal feed 189.9 Million EUR (108 Million EUR from dog and cat food) more than import. On the other side of trade scale where Serbia *imported* more value than it exported (deficit), for sugar sector and sugar products Serbia paid extra 184,5 Million EUR, followed by sector of the mill industry with 145,9 Million EUR, products of animal origin 99,7 Million EUR(mostly pork meat with 51,2 Million EUR) , as well as for the coffee and tea 99,4 Million EUR.(pp.27-28)

The values of exported organic products presented by Ministerie van Landbouw, Natuur en Voedselkvaliteit in 2020 held from Serbia Organica Association, in 2019 reached 29,7 Million Euros, which is an increase of 2,3 Million Euros compared to 2018, and from that export, 8,99 Million Euros or 2300 t was just honey itself. That exported value of Serbian honey according to AgroFin's website article "*SPOS: Rekordan izvoz meda u 2021. godini, zarada veća od 13 miliona* *evra*“ from 10.4.2022 , reached 13.139.900 EUR where 2.175 t of honey have been sold at the price of 6, 04 EUR/kg and made new record of exported value of honey.

Finally, in the last couple of years and especially during 2021, top 10 exported agricultural food products made the value of 44,6% of total Serbian exported value, while the imported agricultural food products have a share of 13,7% value of total Serbian import, therefore the structure of imported agriculture food products is composed out much more diverse products but export consists more of the fewer high value single agricultural food products. EU countries in which Serbia exported the most of its agricultural and food products in 2021 are: Romania 19,7%, Italy 13,9%, Germany 13,1%, Croatia 8% and Bulgaria 5,8%. The import of agricultural and food products coming to Serbia was shared in following proportion: Germany 12,8%, Italy 10,9%, Hungary 9,5%, Croatia 9% and Poland with 8,9%. (MAFW, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.29-31) (Jevtić, M. & Terzić, T. 2022, p.29-31)

CEFTA

Joining *CEFTA* in 2006, was a big step toward broader market share and accessibility to the new and old customers with better product prices by taking into consideration the liberation of the free trade among historical neighbouring countries (Bosnia and Hercegovina, Montenegro, Macedonia and Albania) ties developed long before CEFTA was formed.

In 2021, overall trade value between members of CEFTA and Serbia was 1,3 Billion EUR (17,8% more than in 2020), and that value is divided into 1 Billion of EUR(17,5% more than in year 2020) in export of agricultural and food products, and import with worth of 225 Million of EUR (18,5% more than in year 2020). As we already pointed out, how structure of the trade has crucial importance in order to distinguish in which direction trade is focused and what kind of demand in this case neighbouring CEFTA’s markets have. So again it comes to the same pattern like in the case of EU, that Serbia mostly (62,8%) exports simple primal agricultural products and nearly two times less (36,7%) than the added value processed agricultural products and the import to Serbia follows again the same proportion of market demand toward primal agricultural products with ratio in year 2021 of 75% (in EU for same year was 61,3%) and processed agricultural products of 21,5% (in EU for same year and same group of products was (34,4%).

Out of above stated 24,5% total Serbia trade generated from the CEFTA’s relationship, allocation of these percentages and values could be seen on the following *Table 11*.

Table 11: Value and Share of Exported and Imported products of CEFTA's members and Serbia.

CEFTA	Exported value (Million EUR) and the share of total CEFTA's export from RS (%)	The top 3 most valuable exported products and its value(Million EUR)	Imported value (Million EUR) and the share of total CEFTA's import to RS (%)	The top 3 most valuable imported products and its value(Million EUR)
Bosnia and Hercegovina	442,7 mil. EUR (43,1%)	Maize 27,6 mil. EUR Beer 16,8 mil. EUR Cigarettes 15,2 mil. EUR	98 mil. EUR (43%)	**Froz. Raspberry 18,9 mil.EUR** **Milk 8,9 mil. EUR** **Soya bean meal 7,1 mil. EUR**
Montenegro	274,9 mil. EUR (26, 8%)	Water 13,4 mil. EUR Div. food 13 mil. EUR Refined oil 12,9 mil.EUR	22 mil. EUR (9,7%)	**Pork's product 6,9 mil. EUR** Red vine 3,8 mil. EUR White vine 2,1 mil. EUR
Macedonia	237,5 mil. EUR (23,1%)	Raw sunflower oil 17,7m Wheat 14,3 mil. EUR Refined Sunfl.oil 13,3 m	67 mil. EUR (29,6%)	Non-froz. vegetables 5,6 mil. Tomato 5,3 mil. EUR Fresh grape 5,1 mil. EUR
Albania	70 mil. EUR (6,8%)	Non-alc. beverage 16,4 m Wheat 9,8 mil. EUR **Bran and corn residues 2,1 mil. EUR**	22 mil. EUR (9,7%)	Tomato 8,3 mil. EUR Cucumber 3,8 mil. EUR Paprika 3,1 mil.EUR
Moldavia	2,4 mil. EUR (0,56%)	Fruit seedlings 672000 EUR Corn seeds 309000 EUR **Other fodder 263000 EUR**	17,4 mil.EUR (7,6%)	Sunflower 9 mil. EUR Non-denatured ethyl alcohol 5,7 mil. EUR **Honey 1,7 mil. EUR**

Sources: MAFW, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.31-33) (Jevtić, M. & Terzić, T. 2022, p.31-33)

One of the explanations for this deficit (15 mil. EUR) in the trade with Moldavia, is due to smaller market prices in Moldavia and usage of such market correlation for import and making extra profit at domestic market or re-export to another country.

EFTA gave other trade possibility for Serbian agricultural products with countries like Switzerland and Norway, where overall value of EFTA trade in 2021 was 68,9 Million EUR and surplus of 13,7 Million EUR. In the case of Switzerland, Serbia made 28 Million EUR in export and 6,3 Million EUR import where the export was mainly constructed out of products such as **frozen raspberries, dog and cat food, and raw soybean oil**. On the other side, Serbia from Norway imported agricultural products in worth of 12,3 Million EUR and made 4,6 Million EUR in exports. MAFW, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.34-35) (Jevtić, M. & Terzić, T. 2022, p.34-35)

Other trade partners with whom Serbia has signed free trade agreements that are mostly realized through the food and agricultural products are: Russian Federation and total trade value in year 2021, reached 353 mil. EUR where out of that value 73,2 % accounts for export mostly for apples

78.2 Million EUR, young cheese and cottage cheese 26.7 Million EUR and food for dogs and cats that have been exported in the value of 20.8 Million EUR; Great Brittan and 82,8 Million EUR of its trade worth with Serbia (67,3 Million EUR exported value to GB) mostly through the frozen fruit like raspberries and blackberries and finally Turkey with whom Serbia had deficit of 38,3 Million EUR (of which exports made just 40,1 Million EUR), that is mostly created by higher import to Serbia with products like lemon, tangerines, tomatoes, hazelnuts. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.33-34) (Jevtić, M. & Terzić, T. 2022, p.33-34)

7.1.3 Agricultural Policies inside the Serbian Institutions and their Implementation

According to a recent post from 7.5.2023. of Britannica's website, Serbian Progressive Party or "Srpska Napredna Stranka (SNS)", that is formed in 2008 and gained its full power at parliamentary and presidential level since 2012 at first with its leaders Tomislav Nikolić (from 2012-2014 President of Serbia) and then Aleksandar Vučić (Prime minister in 2014 and since 2017 President of Serbia), with his political governing Serbia made it their policy in accordance with the EU requests and philosophy. That path was followed by many actions like: "Lifting Schengen visa restrictions", Reactivation of the "Stabilization and Association Agreement between the EU and Serbia" as well, taking big loans from IMF and supportive accesses for the foreign direct investments to Serbia.

Their political power is divided by different bodies in Serbia that influence present and the future of agriculture in general and all their participants, mostly farmers and agricultural companies with their agricultural policies. Within Ministry of Agriculture, Forestry and Water Economy of Serbia, sub-institutional bodies (directorates) are classified as follows:

1. „Veterinary Directorate
2. Forest Directorate
3. Administration for Agricultural land
4. Plant Protection Administration
5. Administration for Agrarian payments
6. Directorate for Inland Waterways (Plovput)
7. Directorate for National Reference Laboratories
8. Agricultural inspection
9. Agricultural professional services."(Officall website of MAFWM,(2023)

7.1.3.1 Legal Framework

Legal framework of Serbian agriculture could be generally devided in to two major laws that compose many bylaws:

1. *Law on Agriculture and Rural Development („Official Gazette“, No.41/09, 10/13 – sec. Law, 101/16, 67/21, 114/21)*: “This Law provides the framework for regulating rural development in Serbia. It governs goals of the agricultural policy, types of incentives, registry of agricultural households, record keeping in agriculture, and integrated agriculture information system. Also, the Law provides for the establishment of the Administration for Agrarian Payments as the single authority that is responsible for administration of agricultural subsidies".(Offical website of FAO, (2023), „*FAOLEX Database*-Serbia“)
2. *Law on incentives in agriculture and rural development(„Official Gazette“, No.10/13, 142/14, 103/15, 101/16)*: „This Law provides for the complete classification and definition of types of incentives for agriculture and rural development on the territory of the Republic of Serbia, their use and scope, technical and administrative limits and obligations, registration and data collection requirements, as well as the conditions for exercising the right to obtain incentives in the agriculture and rural development sector“. (Official website of FAO, (2023), „*FAOLEX Database-Serbia*“)

As Ministry of Agriculture and Environmental Protection Republic of Serbia in their annex “*Republic of Serbia IPARD Programme for 2014-2020*” from 27.6.2019 described that both above motioned laws and all other laws that are parts of it, represent the basis and generators for “*The National Agriculture and Rural Development Strategy (NARDS) of Serbia for the period 2014-2024*”.(p.86) This long term strategy(adopted on 31.7.2014) symbolizes the direction of Serbian agriculture in which certain midterm (3 years) documents like “*National Program for Agriculture*” and “*National Program of Rural Development(„Official Gazette“, No. 85/14)*” have purpose to specify dynamics of the application of different measures as the tools for synchronization of National Agricultural Policies to the CAP in the foreseen pre-accession period. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.51-52) (Jevtić, M. & Terzić, T. 2022, p.51-52) There are “strategic development goals” that amplify the picture of NARDS like:

1. “Increase of production growth and stability of producers’ incomes;
2. Competitiveness improvement with adjustment to the requirements of domestic and international markets and with technological and technical improvement of the sector;

3. Sustainable resources management and environmental protection;
4. Improvement of the quality of life in rural areas and poverty reduction;
5. Efficient public policy management and institutional framework improvement for agricultural and rural areas development".(Ministry of Agriculture and Environmental Protection Republic of Serbia, 27.6.2019, p.86)

Following principles give framework in which accordance these goals should be implemented:

- "Agricultural and rural development policy should be oriented towards the above mentioned goals;
- Adoption and full approximation of the *acquis communautaire* should be assured and
- Institutional reforms with regard to efficient policy management and building capacities for implementation of EU CAP – policies should be implemented".(Ministry of Agriculture and Environmental Protection Republic of Serbia, 27.6.2019, p.86)

7.1.3.2 Financing of Agricultural Budget and Subsidy Allocation

When it comes to financing the agricultural policy and rural development policy in Serbia, government and national budget represent the biggest financier (in the range from 40- 100%), while for other financial support comes from EU and other international donors. Every year a Parliament of Republic of Serbia according to the "*Law on the Budget („Official Gazette", No. 149/20, 40/21, 100/21)* defines the amount of the funds that will be directed for incentives (subsidies) in agriculture and rural development of MAFWM.

In 2020, the "*Decree on the Distribution of Incentives in Agriculture and Rural Development in 2021(„Official Gazette", No.159/20, 15/21, 32/21, 46/21, 64/21, 90/21, 109/21, 120/21)* prescribes the volume of funds, types and maximum amounts per type of incentives in agriculture and rural development that were implemented during 2021". (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.52) (Jevtić, M. & Terzić, T. 2022, p.52) In the Appendix it is possible to find *Table 20* listed types of incentives were implemented in 2021 according to above motioned "*Decree*".

The amount of money and its proportions listed above is implemented by "*Decree on the Distribution of Incentives in Agriculture and Rural Development"* and mostly financed by the budget of Republic of Serbia that in recent years until 2019 allocated between 40 and 45 Billion RSD to MAFWM, comparing to MAFWM's budget from 2019 that has grown highly up to 60,2 Billion RSD in 2021, which is in general a positive aspect. In contrast to earlier findings, however, the share of national budget (that has also grown in recent years) assigned as the MAFWM's budget does not follow national growth, meaning that "in 2021, the budget of the MAFWM constituted 4.71% of the national budget, respectively 0.43% less than the previous year". (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.55) (Jevtić, M. & Terzić, T. 2022, p.55)

It is important to bear in mind that in the year 2021 out of 60,2 Billion RSD meant for MAFWM, 73% went for allocation of the funds for above mentioned incentives, and from that 73% (new 100%), 91,5 % of that total funds have been successfully realized, mostly efficiently and trough the direct payments (99,69%) compare to IPARD funds as major ones for this paper, have very low realization rate of 35,26%, which consequential connection we will determine in the next chapters. Many structurally analyzed and comparative data regarding allocation and realization of the agrarian funds, could be found below in *Table 12*.

Table 12: Amount of allocated/realized funds for incentives (mil. RSD) and percentage of used funds compare to amount of allocated funds in years 2020 and 2021.

Type of Incentiv	**Amount of *allocated* funds for incentives (mil. RSD) and share of total allocated funds (%) in 2020.**	**Amount of *realized* funds for incentives (mil. RSD) and percentage of used funds in compare to allocated in 2020.**	**Amount of *allocated* funds for incentives (mil. RSD) and share of total allocated funds (%) in 2021.**	**Amount of *realized* funds for incentives (mil. RSD) and percentage of used funds in compare to allocated in 2021.**
Direct Payments	26 902,8 (63,7%)	26 890,2 (99,95%)	31 269,5 (70,5%)	31 171,1 (99,68%)
Incentives for Rural Development Measures	11 074,85 (26%)	11 039,7 (99,68%)	7 009,9 (15,8%)	6 854,9 (97,78%)
Special Incentivies	250 (0,5%)	243 (97,2%)	250 (0,5%)	248 (99,2%)
IPARD	**3 174** (7,5%)	**799,6** (25,19%)	**5 384,8** (12,1%)	**1 898,9** (35,26%)
Credit Support	**802** (2%)	**104,8** (13,06%)	470 **(1%)**	451,6 (95,87%)
TOTAL	42 203,603 (100%)	39 077,63 (92,25%)	44 384,346 (100%)	40 624,672 (91,52%)
Covid 19	1 386	1 310 (94,51%)		
Covid 19-Credit Support	1 450	1 425 (98,27%)		

Sources: (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.55-56) (Jevtić, M. & Terzić, T. 2022, p.55-56)

Going deeper in the analysis, what stands out is that most frequently implemented types of incentives in the 2020-2021 period are Direct Payments where their share went from 63,7% to 70,5% out of total amount allocated subsidies as well as Credit Support where growth of realized funds went from 104,8 mil. RSD to 451,6 mil. RSD. Where on the other hand, sharp decline happened in the volume of finances allocated (from 11 to 7 bil. RSD) and realized (from 7 to 6,8 bil. RSD) in Incentives for Rural Development Measures which is one of the crucial measures in this structure what could be seen in table 11 above. Additionally, Credit Support as the traditional and proven way of financial funding strategy to the farmers, offers just 1% out of the total allocated funds for incentives in 2021, that is again maybe not the best institution's allocation strategy. In order to be aware of financial support in Serbian agriculture, it is needed to follow streams of incentives to the estuary where these subsidies end up. In the next figures it is possible to see the detailed proportions of funds inside major types of incentives, starting with *figure 22* that shows initial proportion of realized funds in 2021.

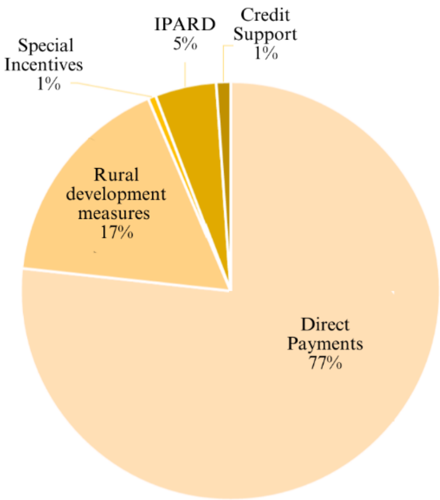

Figure 22: Structure of realized funds for incentives in agriculture and rural development by major types in 2021.

Sources: MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.57) (Jevtić, M. & Terzić, T. 2022, p.57)

Based on data presented in MAFWM's "*The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021*"from 2021, Direct Payments pull the most (77%) of their financial support to their measures, but the actual amount of paid funds for Direct Payments in 2021 it is 23,2 Billion RSD, which is 74,4 % of realized funds in 2021. Basically 25,6% of „missing" funds, are actually delayed (already assigned and approved payments) from 2020 or even later years whose turn is to be paid out in 2021 since new budget is allocated. (p.57)

The reasons for such a delay in governmental paying process is due to unsynchronized difference in timing of receipt of requests for incentives and budget cycles along with technical setbacks inside institutional administration mostly based in "Administration for Agrarian payments" body, that have deficit in personal, technical and logistic support at all levels of organizational hierarchy. These information are personally experienced since I as the author of this master thesis used to work 1,5 years inside that institution(body).

7.1.3.3 Implementation of Allocated and Realized Subsidies

Out of that 77% of realized funds (new 100%) in Direct Payments, 27% went for “Premium for milk”, 29% for “Basic incentives for plant production” and finally the most of the funds (44%) went to “Incentives in animal husbandry” type. (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, p.57) (Jevtić, M. & Terzić, T. 2022, p.57) This amount of investments in animal production does not balance the existing deficit, and as a result, Serbia imports as we mentioned in the „Trade“ subchapter products of animal origin in worth of 99,7 Million EUR(mostly pork meat in the value of 51,2 Million EUR, as well as 9 Million EUR in worth of milk). So again the current measures do not give anticipated results.

Having these processed data in *Table 20* located in Appendix, we could see at first glance, that many of realized funds in 2021 have been actually unsettled obligations from previous years and in the percentage of the numbers of unsettled projects/requests list goes: Direct Payments (40,23%), Incentives for Rural Development Measures (82,42%), Special Incentives (7,6%), Credit Support (42,07%) and IPARD which will be analyzed in detail in the next subchapter, makes on average 43,08% of all realized funds in 2021, which means administrational part of agricultural institutions nearly half of the calendar year worked in order to finalize requests from previous years. To be even more precise in this observation, before we move to the types of the measures, it would be convenient to calculate the average value per unsettled obligation from previous years for every measure in same order, so we did: Direct Payments (143 000 RSD/request), Incentives for Rural Development Measures (566 000 RSD/project), Special Incentives (480 000 RSD/project), Credit Support (340 000 RSD/project), making on average 383 250 RSD/unsettled project. On the other side, the average value per realized project assigned for 2021 had following values: Direct Payments (279 000 RSD/request), Incentives for Rural Development Measures (2 159 000 RSD/project), Special Incentives (334 000 RSD/project), Credit Support (4 012 000 RSD/project), making on average 1 696 000 RSD/per realized project in 2021. Combining this information, we came to the general conclusion that some measures are double (the mostly used Direct Payments measure) and others (Rural Development and Credit Support) are nearly 10 times higher in the value of the payments made in 2021 than for unsettled payments from previous years. There could be reasons for that too big a number of unsettled payments that use administrative and logistic resources of the whole institutional supply chain, and/or the need of admiration to make balance in paying out the projects in present calendar year (in this case 2021), by disbursement of the projects/request that withdraw a significant amount of financial funds/subsidies. As the possible corollary of such subsidiary policy toward smaller farmers or agricultural firms is that they are in unfavorable situation where they have to wait for financial state support, while that cycle of repetition continues. So duality of Serbian agriculture happen to be ever present.

Allocation of the realized funds in 2021 of these five measures, shows us on one side on what government want to invest the money and to help farmers, and on the other side farmers/companies' willingness and need toward certain types of measures which they think will help the strategic competitive development. Therefore government, at the moment, put the most of its interest on incentives regarding plant production and animal husbandry with 23 418 mil. RSD and out of that: pig fattening incentives 1 017 mil. RSD (that total trade deficit), 600 mil. RSD of incentives on bee hives and cows to raise calves for fattening, as well as incentives breeding dairy cows and milk premiums combine makes 10 Billion RSD funds of Direct payments that was not enough to create positive impact of livestock, plant or milk production (see table 6 and table 7) and only noteworthy was the honey production which showed positive production output.

Incentives for rural development measures are for this paper of particular importance because they focused directly on giving opportunity to farmers to create competitiveness and better strategic positioning at market. These incentives are divided in 5 mini subsidiary groups that each of them are focusing on its own goal and out of 3 075,3 mil. RSD in following way it was used in 2021:

- **Incentives for improving competitiveness** accounted **60,12%** or **1 851,2 mil. RSD** that were further divided into: Risk management (Recourse for insurance premium for crops, fruits, perennials, nurseries and animals) 1 507,4 mil. RSD, Investments in physical assets of agricultural holdings 324 mil. RSD and the rest of the 20 mil. RSD funds were directed into *Investments in the processing and marketing of agricultural and food products and fishery products (19,8 mil. RSD or around 167 000 EUR)* and Support for improving the quality of wine, brandy and agricultural food products which last two subsidies supported with just 9 projects.
- **Incentives for the preservation and improvement of the environment and natural resources** had a portion of **261 mi. RSD (1,31mil. EUR)** or **8,4%** separated in: Organic plant and animal production 234,6 mil. RSD and 13, 2 mil. RSD for Preservation of plant and animal genetic resources. Organic production in Serbia has huge potential as one of the differentiation strategies when it comes to competitiveness in agriculture, especially for the foreign markets. 435 projects have been financially supported with the *Organic plant and animal production* subsidies and we hope government will invest more money into conversion of the farmers from conventional to organic food production.

- **Incentives for diversification of income and improvement of quality of life in rural areas** 258,37 mil. RSD or 8,4% goes deeper in our thematic by allocating its funds on three major subsidies like: *Implementation of activities aimed at increasing competitiveness in terms of adding value through processing, as well as for the introduction and certification of food quality systems, organic products and products with geographical origin on farms* with its 29,8 mil. RSD (approximately 250 000 EUR), *Introduction and certification of the food quality system, organic products and products with geographical origin designation* 9,9 mil. RSD (84 000 EUR) that were used for 147 request in one way or another and finally Investments in rural infrastructure got the biggest portion of financial aid with 218,2 mil. RSD.
- **Incentives for the preparation and implementation of local rural development strategies**, based on data presented above for this subsidy, there were either no allocated funds in the first place or no demand from farmers or companies, and therefore no realized funds.
- **Incentives for the improvement of the system of creation and transfer of knowledge** got **734,3 mil. RSD** or **23,87%** of Incentives for rural development measures that was primarily paid for in two directions: Development of technical-technological, applied, developmental and innovative projects in agriculture and rural development 195,2 mil. RSD and Support in providing advice and information to agricultural producers, associations, cooperatives and other legal entities in agriculture 539,1mil. RSD that have been given to the governmental and non-governmental workers and organizations. It is important to point out that from 2017 to 2019 number of veterinary stations fell from 367 to 355 as well as the number of employed VET specialists from 2024 to 1895. (SORS (2021), "*Statistical Yearbook 2020*", p.224) Maybe, one of the reason for that is the general downfall in animal production, that tendency of both parameters are not good direction for Serbian agriculture neither for institutional construct.

Again out of 8 101 realized request/projects in Incentives for rural development measures, 6 677 (82,42%) have been done as unsettled obligations from previous years with worth of 3 779,5 mil. RSD (55,13%), shows incapability of the institutions to handle with competence the large volume of the requests, that have such big impact on the SCM and market planning, since one calendar year at this market represents the unpredictable and long period, especially in such seasonal industry as agriculture is.

Going back to the group of measures under Special incentives with its budget of 221,6 mil. RSD we can see that the biggest focus of this group is on Incentives for the implementation of breeding programs, in order to achieve breeding goals in animal husbandry - selection measures that got 144,7 mil. RSD and second most important is with 74,8 mil. RSD of support incentives for the production of planting material and certification and clonal selection.

Lastly, Credit Support represents one of the oldest and reliable ways of financial support which farmers and companies used through the years for procurement of: seeds, new mechanization, equipment, quality breeding heifers and fertilizers. In year 2021 the budget of realized projects was 425,3 mil. RSD was shared between two subsidies. The first one was Subsidy as part of the interest rate that used 343,9 mil. RSD and second one was The insurance premium that accounted 81,3 mil. RSD.

These governmental measures characterize the heart that pumps directly hope and business life into all farmers and agricultural companies, unfortunately these spending were (and are) not enough, as we saw they are proportionally smaller in 2021 than in previous years. For that reason following *Table 13*, we see compression in the amount of governmental and EU support through the CAP system in the countries we mentioned above plus Croatia so it is clear how big support the farmers and agricultural companies inside these EU member states have.

Table 13: Comparison of Governmental and Realized IPARD Subsidies in Serbian Agriculture with EU's CAP Expenditures in Poland, Hungary, Slovenia and Croatia.

Countries	**Direct Payments** (1000 EUR)	**Rural Development** (1000 EUR)	**Market Measures** (1000 EUR)	**Total** (1000 EUR)	**EUR per UAA** (1000EUR/1000*ha*)
Serbia	222 073	93 066	Special Incentives + Credit Support + IPARD realized funds = 15 560	330 698	330 689 / 3 504 = **95** EUR/*ha*
Poland	3 402 201	1 187 301	25 553	4 615 055	4 615 055 / 18 760 = **246** EUR/*ha*
Hungary	1 266 719	486 663	40 211	1 793 593	1 793 593 / 4 671 = **384** EUR/*ha*
Slovenia	133 869	120 721	7 022	261 611	261 611 / 482 = **542** EUR/*ha*
Croatia	317 338	282 343	13 061	612 741	612 741 / 1500 = **408** EUR/*ha*

European Commission. (2021). "*Statistical Factsheet- European Union*", DG Agriculture and Rural Development, Farm Economics Unit, p.7, Available at: https://agriculture.ec.europa.eu/system/files/2022-01/agri-statistical-factsheet-eu_en_0.pdf

Basically, Serbian agriculture even with realized IPARD funds, does not even reach half of the Polish agricultural support per hectare of UAA and in comparison with neighboring and ex-Yugoslavian countries like a Croatia and Slovenia, disproportion is even greater by 4 and 5 times bigger budget than Serbia.

7.1.3.4 Effects of EU Subsidies on Serbian Agriculture

Throughout the whole paper we came to general conclusion that the IPARD II Programme's purpose is to support agricultural producers, processors as well as rural population in development of effective and capacity more available job practices that will be in right correlation with EU standards, so it can prepare their marketing strategy and living standards for the moment of Serbian accession to EU.

7.1.3.4.1 Priorities and Needs of IPARD II Program

In theoretical part of this paper we saw, how it is important is to define external and internal aspects of your surrounding and internal wellbeing, in order properly to address starting points of implementation of every strategy. In the case of Serbia, The National Agriculture and Rural Development Strategy (NARDS) of Serbia for the period 2014-2024 together with IPARD II Program made the list of priorities that have been considered in order to meet the future goals of both NARDS and IPARD II Programme:

1. "Stabilization of income in agriculture;
2. Increased financing of agriculture and rural development and risk management;
3. Efficient land management and improved accessibility of the land resources;
4. Improved physical resources;
5. Improvement of the knowledge transfer system and human resources development;
6. Adaptation to and mitigation of the climate changes effects;
7. Technology development and modernization of the agricultural production and processing;
8. Market chains development and logistic support to the sector;
9. Protection and improvement of environment and preserving of the natural resources;
10. Preserving of agriculture, human and natural resources in the areas with difficult working conditions in agriculture;
11. Diversification of the rural economy and preserving of the cultural and natural heritage;
12. Improvement of social structure and strengthening of the social capital;
13. Modernization and adjustment of institutions and legal framework;
14. Improvement of the products quality and safety". (Ministry of Agriculture and Environmental Protection Republic of Serbia, 27.6.2019, p.87)

Based on above priorities Serbia, with its NARDS plan and IPARD II Programme financial support, defined the needs whose fulfillment is out of most noteworthiness for Serbian farmers, agricultural and processing food companies as well as population in the rural area. These needs are selected and described in following 13 points:

- **"Improve competitiveness of the agricultural sector** - Farmers in Serbia lack competitiveness for their products, due to the standard of their holdings, instability of production conditions and because of low efficiency of production and high production costs. As a result, incomes are unstable. The IPARD measure "Investments in physical assets of agricultural holdings" is designed to encourage investments in facilities, mechanization, equipment and technologies, which would allow the development of productivity and efficiency and attainment of EU-production standards in particular in public health, environmental protection, animal welfare and occupational safety. Investments in raising the standards are urgent in animal breeding farms in order to improve raw milk hygiene (milking and cooling facilities), animal welfare conditions (housing, ventilation, etc.), manure handling and storage. Fruit and vegetable farms need investments in order to improve post-harvest infrastructure and to optimize the use of irrigation water. Holdings also need investments to reach an efficient scale of operation. NPRD is designed to help smaller agricultural holdings to increase their production and/or to keep their agriculture production either as growing business or additional source of income.
- **Upgrade of the processing sector to EU-Standards** - A large proportion of the enterprises in the food industry need investments to modernize facilities and production lines. There are urgent requirements to establish safe collection and storage of raw materials to reduce waste and to ensure food safety. Support for this sector is planned exclusively through the IPARD measure "Investments in physical assets concerning processing and marketing of agriculture and fishery products". It will be focused on increased productivity and food processing efficiency to withstand competitive pressure and market forces as well as to help the sector to progressively align with EU standards. The renewed agricultural industry capacities should meet improved standards on EU-level in particular concerning hygiene, animal welfare, environment and quality of products.
- **Diversify activities and sources of income in rural areas** - The IPARD measure: "Farm diversification and business development" contributes to rural economy diversification and decreased dependence of rural areas on agricultural income and creates conditions for the small agricultural holdings. The IPARD measure: "Farm diversification and business development" will support rural tourism and thus give the possibility for farmers to apply and diversify their activities and income. An analysis of rural tourism in Serbia shows that

it already contributes to the rural economy and has great potential for further development. Furthermore, rural areas are characterized by a diversity of landscapes, rich biodiversity, cultural heritage and natural resources.

In addition, the national support schemes will provide funding for the beekeeping sector and honey production as well as for the aqua-culture sector.

- **Develop non-agricultural sectors of rural economy** - Diversification of economic activities in the rural areas widens the range of services available to rural population and encourages products and services based on traditional knowledge and technology, natural resources and cultural heritage and will be supported with national support measures, rural tourism projects within the IPARD measure: ”Farm diversification and business development” will be focused on zones showing an appropriate development potential. Economic diversification should encourage growth, employment and sustainable development in rural areas, and thereby contribute to better territorial balance, both in economic and social terms, increasing directly the income in rural areas by developing non-agriculture activities.
- **Improve the quality of vocational training and information services to farmers and small scale local business -** The advisory services will be trained to help farmers, forest holders and SMEs in rural areas to use the IPARD II Programme incentives and to improve the sustainable management and economic and environmental performance of agricultural holdings or related businesses. Development of the advisory services is one of the main priorities of the MAEP. Support to development of the advisory services will be provided by the national budget and IPA institution building. Under the IPA TA measure the advisory services will be supported to actively organizing publicity and informational campaigns for potential grant beneficiaries.
- **Improve management of natural resources and resource use efficiency -** A strong contribution to decrease the present trend of degradation of nature and the environment due to unsustainable land management and farming practices that result in land degradation and soil erosion, water pollution and biodiversity loss could be made by IPARD measures “Investments in physical assets concerning processing and marketing of agriculture and fishery products”, and ”Investments in physical assets of agricultural holdings”. They have a strong link to this need as they are largely destined to improve environmental standards in primary production and processing of agricultural products and so contribute to the decrease of contamination of air and soil, in particular through investments to improved management of waste, introduction of water saving technologies and renewable energy.

Support of physical assets for primary production and processing of milk, meat, fruit and vegetables and crops will provide necessary equipment and tools to recipients for proper management of natural resources and improvement of soil and water quality and, at the same time, it will assist in implementation of environmentally friendly practices in primary agricultural production and processing. At the end of each supported project the entire enterprise must comply with the main relevant national minimum standards in force regarding environmental protection, public health, animal welfare, and occupational safety. Investments in irrigation systems will contribute to proper use of water resources. As there are valuable opportunities related to increased demand for organic products as well as eco- and agri tourism, which both depend on preservation of the environment and contribute to nature conservation "Agri-environmental-climate and organic farming measure" as well as" Farm diversification and business development" are the core measures directly designed to contribute to solving the problems. Development of the capacity of the advisory services and improved provision of information and advice to farmers on the sustainable management of natural resources will promote this need.

- **Maintenance of biodiversity and environment value of agricultural areas and agricultural systems and maintenance of water resource quality -** The IPARD "Agri-environmental-climate and organic farming" measure raises awareness of the producers to protect and improve the natural resources at their disposal. It involves protection and preservation of the land, air quality, water, places of living of animals and plants, traditional rural areas and agricultural areas of high natural value. Synergy effects of investment measures "Investments in physical assets concerning processing and marketing of agriculture and fishery products", and "Investments in physical assets of agricultural holdings" such as: setting the special criteria for investments support, special subsidized programme in the energy supply area, technological improvement of production processes and special subsidies for introduction of environmentally friendly technologies could also lead to improvements and protective effects. The support policy is going to gradually obtain the shape of the policy harmonized with EU standards, which requires administrative strengthening in the area of agri-environmental schemes monitoring and implementation. NPRD will continue to provide support in the field of agri environment through preservation of animal and plant genetic resources as well as preservation and conservation of soil. New measures in the NPRD will provide support to sustainable forest management and forestry actitvities. If available resources allow in the future, particular attention will be paid to preservation of biodiversity and autochthonous breeds.

- **Promotion of sustainable forest management (SFM), improving forest accessibility and access to environment-friendly technologies in the forestry sector -** Support for sustainable and climate friendly land use should encompass forest area development and sustainable management of forests. Forests play a key role in moving towards a low carbon economy, maintaining biodiversity, sequestering carbon, offering ecosystem services, facilitating recreation as well as providing jobs and income possibilities in rural areas. The activities and support for establishment and protection of forests, promotion of investments in the development of forests area and in forest protection, will be financed from the National budget and possibly by donor's support.
- **Maintenance of a low level of greenhouse gas emissions (GES) from the agricultural sector and rural space and support for passing to an economy with low carbon emissions -** Agriculture development will be increasingly facing climate change effects in the future. Higher concentrations of carbon-dioxide and other greenhouse gases, increase in temperature, change in the regime of the annual and seasonal precipitation and increased frequency of extreme temperatures will inevitably influence the scope of production and quality of food, stability of yield and the environment. Besides, the consequences such as decreased accessibility to water, more frequent appearance of diseases and pests and deterioration of land quality can be also expected. All the selected measures under the IPARD II Programme are designed in order to contribute to reduction of CO2 emissions and assist in mitigation of the climate change impact on the sector of agriculture. Since NPRD is focusing only on smaller agricultural holdings, it doesn't predict support for this type of investments.
- **Reduction of poverty degree and risk of social exclusion -** There are over 750,000 unemployed people in Serbia and they are mainly located in the countryside. The economic crisis has strongly affected the Serbian economy, which is confirmed by the poverty growth rate figures of recent years. Rural areas are especially affected by poverty and differences are deepening between rural and urban areas. In that sense, more attention should be paid to this problem and measures selected for IPARD could provide support for reducing poverty and social exclusion by maintenance and creation of employment positions in the country side. In particular, investment measures such as "Investments in physical assets of agricultural holdings" and "Investments in physical assets concerning processing and marketing of agriculture and fishery products", "Farm diversification and business development" but also e.g. "Organic farming" measure could contribute to reduce this problem. The main support is expected through NPRD since it covers smaller agricultural

holdings and thus keeps requirements for utilization of support measures easier for recipients.

- **Improve the basic infrastructure and services in rural areas** - It is hard to realize provision of services, economic development in rural areas, the growth potential and promotion of sustainability without sufficient coverage of basic infrastructures. In the period 2014-2020 the basic infrastructure and services in rural areas will be supported with national budget and donor's support.
- **Creation of jobs in rural environment -** Without the creation of new jobs, no sustainable development in the countryside and the therefore necessary structural changes will be achieved. So the selection of measures for IPARD II is concentrated, to a large extent, on those which can directly contribute to creation of jobs such as "Investments in physical assets of agricultural holdings, and Investments in physical assets concerning processing and marketing of agriculture and fishery products, Farm diversification and business development". Due to the limits in size of beneficiaries NPRD will not be so focused on creation of new jobs but rather on keeping of existing and preparations for further growth of holdings.
- **Improve the capacity of the local stakeholders to implement LEADER approach** - As at local and regional level up to 24 potential LAGs have been established, supported by 605 thematic action groups. Strong progress has been made to develop civil society and social dialogue within rural population in Serbia and to facilitate good governance through local partnerships and to foster employment and to develop human capital. With this approach of an integrated territorial development tool on "local" level a balanced territorial development of rural areas, which is one of the overall objectives of the rural development policy could be better guaranteed. To reach a more comprehensive coverage of the territory by LAGs and to finance first projects, prioritised in the LDS, the IPARD measure "Implementation of Local development strategies - LEADER approach" is planned to be implemented in second phase of implementation of IPARD II. The TA and NPRD measure will be used to facilitate creation of partnerships and for developing skills of the potential local action groups for elaboration and implementation of LDS." (Ministry of Agriculture and Environmental Protection Republic of Serbia, 27.6.2019, pp.88-92)

Based on NARDS' 2014-2020 and IPARD's II Programme strategic development goals and principles as one part, and priorities and needs as the second part, it comes to the concluded summery of general objectives for the situation in Serbian agriculture and rural development:

- “support the competitiveness of the agro-food sector, alignment with EU veterinary, phytosanitary, food safety and environmental standards, as well as its restructuring and modernization;
- contribute to the development of sustainable land management practices by supporting organic farming and other agro-environmental practices;
- contribute to sustainable rural development by supporting diversification of economic activities and strengthening the LEADER approach;
- support the efficient Programme implementation, monitoring, evaluation and publicity under the Technical Assistance measure.” (Ministry of Agriculture and Environmental Protection Republic of Serbia, 27.6.2019, p.92)

As the proven ways on how these needs, priorities, objectives could be implemented with the help of EU IPARD II that provided six measures (out of possible elven) as apparatuses which give logistics and financing for improvement of different target groups trough the various interventions. That is the reason why these 6 are included in IPARD II Programme 2014-2020.

7.1.3.4.2 Financial Structure of IPARD II Programme

In the financial part of this subchapter, the allocation of budget for six measures as constructional tools of IPARD II Programme 2014-2020 is presented. These measures are funded from three sources. In the first financial grouping consists “EU Contribution” and “National contribution” represent the basis of so called “Total Public Aid”, and the combining that aid with “Private Contribution” (the amount of money invested by farmers or firms) makes the “Total Expenditure “or the second financial grouping that shows total amount of money invested in Serbian Agriculture with help of the measures as lawful, logistical and overall institutional tool. Table below shows that exact amount of money (EUR) distributed and added as well as contribution rate in (%).

Table 14: Financial Plan and Budget Breakdown per Measure of IPARD funds 2014-2020.

Measures	EU Contribution (EUR) (%)	National Contribution (EUR) (%)	Total Public Aid combined EU and National (EUR) (%)	Private Contribution (EUR) (%)	Total Expenditure Combined Total Public and Private (EUR) (%)
Investments in physical assets of agricultural holdings	76 040 000 (75%)	25 346 667 (25%)	101 386 667 75+25=100% New (60%)	67 591 111 (40 %)	**168 977 778** 60 +40 = 100%

Investments in physical assets concerning processing and marketing of agricultural and fishery products	65 510 000 (75%)	21 836 667 (25%)	87 346 667 75+25=100% New (50%)	87 346 667 (50%)	**174 693 334** 50+50=100%
Agri-environment-climate and organic farming measure	8 750 000 (85%)	1 544 333 (15%)	10 294 118 85+15=100%	-	**10 294 118** 100%
Implementation of local development strategies – leader approach	5 250 000 (90%)	583 333 (10%)	5 833 333 90+10=100%	-	**5 833 333** 100%
Farm diversification and business development	15 000 000 (75%)	5 000 000 (25%)	20 000 000 75+25=100% New (65%)	10 769 231 (35%)	**30 769 231** 65+35=100%
Technical assistance	4 450 000 (85%)	785 295 (15%)	5 235 295 85+15=100%	-	**5 235 295** 100%
Total	**175 000 000** (76,06%)	**55 096 080** (23,94%)	**230 096 080** 76,06+23,94=100% New (58,14%)	**165 707 009** (41,86%)	**395 803 089** 58,14+41,86=100%

Sources: Ministry of Agriculture and Environmental Protection Republic of Serbia, 27.6.2019, pp.101-102, Available at: https://uap.gov.rs/wp-content/uploads/2017/11/IPARDII-final-III-modification-ENG27062019.pdf

Funds for these measures are divided in following proportions:

- “Investments in physical assets of agricultural holdings” (44%);
- “Investments in physical assets concerning processing and marketing of agriculture and fishery products” (35%);
- ”Farm diversification and business development” (10%);
- “Implementation of Local development strategies - LEADER approach” (3%);
- “Agri-environmental-climate and organic farming” (5%);
- “Technical assistance” (3%). (Ministry of Agriculture and Environmental Protection Republic of Serbia, 27.6.2019, p.93)

Such allocation of financial support and contribution rate has been dived throughout the years in following order as showed in *Table 15*.

Table 15: Budget Breakdown by Measures Between 2014-2020

Measures	EU Contribution in EUR and							
	2014	2015	2016	2017	2018	2019	2020	2014-2020 EUR
Investments in physical assets of agricultural holdings	-	7535248 **(50,23%)**	9900325 **(49,50%)**	10622224 **(42,49%)**	11 199 743 **(37,33%)**	17 002 434 **(42,51%)**	19 780 025 **(43,96%)**	**76 040 000**
Investments in physical assets concerning processing and marketing of agricultural and fishery products	-	7464752 **(49,77%)**	10099675 **(50,50%)**	8 690 276 **(34,76%)**	9 162 757 **(30,54%)**	13 910 066 **(34,78%)**	16 182 475 **(35,96%)**	**65 510 000**
Agri-environment-climate and organic farming measure	-	-	-	2 187 500 **(8,75%)**	2 187 500 **(7,29%)**	2 187 500 **(5,47%)**	2 187 500 **(4,86%)**	**8 750 000**
Implementation of local development strategies – leader approach	-	-	-	500 000 **(2%)**	1 000 000 **(3,33%)**	1 900 000 **(4,75%)**	1 850 000 **(4,11%)**	**5 250 000**
Farm diversification and business development	-	-	-	2 000 000 **(8%)**	5 000 000 **(16,67%)**	4 000 000 **(10%)**	4 000 000 **(8,89%)**	**15 000 000**
Technical assistance	-	-	-	1 000 000 **(4%)**	1 450 000 **(4,83%)**	1 000 000 **(2,5%)**	1 000 000 **(2,22%)**	**4 450 000**
Total	**-**	**15000000 (100%)**	**20000000 (100%)**	**25000000 (100%)**	**30 000 000 (100%)**	**40 000 000 (100%)**	**175 000 000 (100%)**	**175 000 000**

Sources: Ministry of Agriculture and Environmental Protection Republic of Serbia, 27.6.2019, pp.104, Available at: https://uap.gov.rs/wp-content/uploads/2017/11/IPARDII-final-III-modification-ENG27062019.pdf

7.1.3.4.3 Implemented Measures and its Effects

When it comes to implementation of the measures it is done through the public calls and it can happen one or few times in one year or few years, it depends on the ideas, funds and effect which institutions want and can pursue in the farm sector.

Based on the “Annual Implementation Report on the IPARD II Programme for 2020” of MAFWM Department for Management of IPARD Programme Republic of Serbia, from June 2021 had following timings and goals of the IPARD measures:

Measure 1 had five public calls in time period from 2017 until 2020

Measure 3 had three public calls

Measure 7: until year 2020, this measure had one public call.

Detailed description of timings and goals for each above mentioned measure could be find in the Appendix of this master thesis.

During this four years of implementation of IPARD program in Serbia there have been 1748 applications submitted which had requested value of 373,2 mil. EUR (from which EU support supposed to be 216,5 mil. EUR). From the total number of submitted applications, on Measure 1 until year 2020 agricultural market had the most interest with 1235 submitted applications that had requested value of 193,6 mil. EUR, Measure 3 with 202 submitted applications and 109 mil. EUR and Measure 7 just in first public call had 311 potential recipients that asked for support in worth of 70,6 mil. EUR. That kind of response on Measure 7 could be understood as big success as the first step in this process.(MAFWM Department for Management of IPARD Programme (2021), pp.28-29)

This distribution of submitted applications could be observed through the few point of views, which each of them could give other perspectives of understanding the interaction between need, wants of potential receivers of IPARD funds and on the other side governmental institutions with its processing capabilities (knowledge, efficiency, readiness, methodology) to direct and enable those requests. These views could be observed through the **years** when these applications have been submitted, **public calls**, **sectors** and **type of investment** inside the measure.

Having that in mind, in **2018** Measure 3 when there was the first public call for it together with Measure 1, did not have any submitted applications and therefore no accepted or paid projects. That trend changed in 2019 after applicant gained the necessary knowledge and resources so they properly and on time applied for financial support in agricultural products and data showed it was 8 Withdrawn applications (W), Rejected (R) 28, Approved (A) 43 and Paid (P) 9. In year 2020, seemed that applicants gained the knowledge and used right timing for preparation of projects so the aspects had following values: (W) 7, (R) 18, (A) 23, (P) 22.

Measure 1 had instant success 2018 which was at first, since the intentions of institutions were more understandable and suitable for these who submitted applications, since their focus were on purchase of new equipment, machinery and tractors as the most useful thing in agriculture, and the numbers look like this: (W) 32, (R) 89, (A) 20, (P) 0. The need for this measure continued to grow drastically ((W) 60, (R) 46, (A) 209, (P) 176) in 2019 which is obvious through the amount of approved and paid projects which were not executed in 2018. That trend ((W) 55, (R) 51, (A) 297, (P) 131) continued in 2020, where the number of withdrawn applications was smaller and number or rejected stayed nearly same, whereas number of approved projects are almost higher by 50% that shows continued necessity for such things, finally that is followed with solid institutional response of amount paid requests.

Measure 7 was relatively new as measure but with the bases (from years of other measures) that were formed inside institutions and private agencies whose job was to help farmers or agricultural companies to create project's plan, which afterwards have been used in application. On such constellation Measure 7 had 311 requested applications "with largest amount of requested expenditures for investment 70,6 mil. EUR", had zero success when it comes to approved and paid projects. (MAFWM Department for Management of IPARD Programme (2021), p.30)

Observation made with standpoint **per public call** showed that every second call in case of Measure 1 had much greater number of submitted applications and amount of requested funds than first and third. There are many reasons for the both, mostly due to specific needs and wants of the farmers that happened to be in every second call, in this case the importance of possible purchase of tractors made applicants very motivated so they submitted 393 for the Second Call and 437 applications for the Fourth Call. The total requested funds (expenditures) of these two calls were 44,8 mil. EUR which is much lower, at first view, than the total requested funds of first and third public call (134,5 mil. EUR) with total of 320 submitted applications for construction and procurement of new equipment, machinery and mechanization (without tractors). Measure 3 had constant growth from the first to the third call, where from 26 submitted applications and 9,9 mil. EUR in expenditures went to 95 applications worth of 57,7 mil. EUR of possible expenditures. Measure 7 finally had just one call in year 2020 with 311 submitted requests that had estimated value of 70,6 mil. EUR of requested expenditures, from which as we already mentioned have not been any realized and therefore not financed. (MAFWM Department for Management of IPARD Programme (2021), pp.30-31)

When it comes to the **sectors** and amount of submitted applications, inside Measure 1 with 1235 applications, the biggest interest was in the sector of crops that consists of (cereals, oilseeds, sugar beet) with 665 applications, the next most wanted type of support was for the sector of fruit and vegetables with 365 submitted applications in the favor of fruits as subsector of 310 and 55 for vegetables. The rest of the total submitted applications went to meat sector with 122 and 47 for a dairy sector.

Out of 202 as total number of submitted applications for Measure 3, applicants shared pretty much the same desire toward the sector of fruit and vegetables with 65% of concentrated requests, followed by significantly smaller number of applications toward the sectors like wine with share of (11%), meat processing sector (9%) and milk processing sector with share (6%). Unfortunately no requests were filed for support inside egg sector, but the amount of unclassified applications has become smaller while general number of submitted applications is on the rise compared to previous years. Measure 7 even though it did not have approved applications, it did have 198 applications submitted for setting of tourist homesteads and recreational zones. Additionally, willingness to support renewable energy resources through their projects 15 applications were submitted. (MAFWM Department for Management of IPARD Programme (2021), pp.31-32)

Looking at the number of submitted applications on the **type of investment** which is made, we can understand the most detailed and concentrated intention of the applicant s' need for support. For Measure 1 we already saw that the biggest willingness toward IPARD support was for new tractors (67%), while the other type of investment as an equipment and machinery which does not include tractors had share of submitted applications of (20%) that more used for "harvesting, sorting, packaging and storage" and remaining 11% went to construction/modernization of facilities. Measure 3 had total number of 202 submitted applications for approval and from that number the major share continues the path that started in Measure 1, which went toward the more specialized mission that was part fruit and vegetable processing sector (131 applications). Inside that sector applicants requested for "modernisation of processing and packaging equipment" (67 applications) and for construction/reconstruction/modernization of processing facilities (46 applications)." That modernisation spread in meat sector. The awareness projects made by institutions showed some steps forward by applicants in direction of protection of nature and thinking about renewable sources of energy that filed "23 applications related to environmental protection." Measure 7 has different approach when it comes to goals of the IPARD support toward agriculture and people who are living and working in rural areas, therefore "investments in setting of tourist homesteads and recreational zones (198 applications), as well as for investments for modernisation of existing tourist facilities: 49 applications.” (MAFWM Department for Management of IPARD Programme (2021), pp.34-35)

Based on all data collected above and additional ones, we could come to the following summary of information for better overview of the number of submitted, approved and paid projects as well the amount of money requested and allowed for each of these groups in the *Table 16*.

Table 16: Review of submitted, approved and paid IPARD projects in relation of requested, approved and paid expenditures by the end of 2020.

	Submitted Requests		Approved requests			Paid Requests			Rejected requests				
												Withdrawn	
Measure	No.	EUR	No.	EUR	No./EUR	No.	EUR	No./EUR	No.	EUR	No./EUR	No.	EUR
Measure 1	1 235	87 116 643	526	21 808 384	41 461	191	6 645 923	34 795	333	22 956 977	68 940	147	6 331 596
Measure 3	202	40 979 142	57	11 945 784	209 575	26	3 043 987	117 076	61	8 093 093	132 673	15	2 475 407
Measure 7	311	22 901 957	0	0	0	0	0	0	0	0	0	0	0
Total	1 748	150 897 742	583	33 754 168	251 036	217	9 689 909	151 871	394	31 050 070	201 613	162	8 807 003

Sources: MAFWM Department for Management of IPARD Programme, 11.6.2021, p.43 , Available at: http://www.minpolj.gov.rs/download/Annual-Implementation-Report-on-the-IPARD-II-Programme-for-2020.pdf

Out of the total number of submitted applications 583 have been approved, with requested expenditures of 33 754 168 EUR and from that it was paid 9,7 mil. EUR and 151 871 EUR per average paid project. From the data from previous year (2019) there is an increase in approved application by 11% compare to 122% in submitted application, all of that is followed with the growth of “approved amount of EU contribution by EUR 18.8 m (for 125%).” (MAFWM Department for Management of IPARD Programme (2021), p.43) From the table above it is obvious that the amount of money approved for investment per request is 39,51% smaller than the amount of money finally paid for the project. Which is even more interesting, is that the number of rejected and withdrawn projects combined is just 4,6% smaller than the number of approved applications. At the end, the worth of paid projects is on average by 49 743 EUR smaller than the requested amount for expenditures of rejected projects. Taking all that together we can see still big lack in the knowledge and information sharing between governmental institutions toward applicants that in great majority are private persons (farmers) and less agricultural companies that come more prepared.

In order to have better understanding of the implementation of these accepted and paid projects, we have to think in the context of numerical representation of certain aspects that have been fulfilled according to the above mentioned goals and objectives. Therefore institution created few categories that show that results in the following *Table 17*.

Table 17: Output indicators and targets for Measure 1, Measure 3 and Measure 7 from the beginning of year 2018 until the end of year 2020.

Type of indicator	Indicator	Measures	Realization			Realization in total from 2014-2019	Target value 2014-2020	Execution rate (%)
			2018	2019	2020			
Output indicator	Number of projects supported	Measure 1	0	145	46	191	720	26,5
		Measure 3	0	0	26	26	463	5,6
		Measure 7	-	-	No paid projects	0	0	0
	Total volume of investments (EUR)	M1	0	9 645 783	4 370 020	1 405 802	169 977 778	8,3
		M3	0	0	8 466 018	8 466 018	165 893 333	17,2
		M7	-	-	-	-	-	-
Targets	Number of holdings performing modernisation projects	M1	0	145	46	191	600	31,8
		M3	0	0	26	26	463	5,6
		M7	-	-	-	-	-	-
	Number of holdings progressively upgrading towards EU standards	M1	0	145	46	191	380	50,3
		M3	0	0	26	26	463	5,6
		M7	-	-	-	-	-	-
	Number of holdings investing in renewable energy production	M1	0	0	0	0	60	0
		M3	0	0	0	0	46	0
		M7	-	-	-	-	-	-
	Number of holdings investing in livestock management in view of reducing N2O and methane emissions (manure storage)	M1	0	0	0	0	120	0
		M3	0	0	0	0	160	0
		M7	-	-	-	-	-	-

Sources: MAFWM Department for Management of IPARD Programme, 11.6.2021, p.43 , Available at: http://www.minpolj.gov.rs/download/Annual-Implementation-Report-on-the-IPARD-II-Programme-for-2020.pdf

7.1.3.4.4 Possible Outcomes of Serbian's Application of Laws, Regulative and Standards of EU inside Serbian Agriculture

After taking all the above data collected and processed, there are many aspects of Serbian agriculture whose improvement could be anticipated on different levels (governmental and private level), as on the latitude (micro and macro level) as well as real significance in terms of the impact on development of the strategies of big agricultural companies as well as on the work-life balance of single farmer and its customers.

Basically starting from the point where, creation and equipment of the institutions with suitable laws and regulations (first from IPA I and then from IPA II) and the educated management are first steps in enabling capacity of institutions to be of use, not just government as higher authority but from private companies and single farmers. Of course, in such a process there are certain restrains which agrarian policies make no easy progress, and they are: insufficient financial funds that are directed in right way and mission (in agriculture and rural areas), not enough number of institutions which will have well defined purpose and goal that will lead to a more precise direction of responsibilities that can help agricultural companies in real life situations (for Serbian conditions in EU way) and finally, the national agricultural policies have to be much analytically and objectively prepared so they can fix current problems and create a better future. Current problems of Serbian national policies should be addressed in order to know what should be systematically and appropriately (with help of the experience from other similar agricultural governmental systems and EU) managed in the near future.

Some of these problems as we so above are: polarization of the agricultural population on big and small ones and migration of the people from rural to urban areas, making these areas with old population, excessive insistence and support on some branches of agriculture while the others have been neglected making that negative trends in foreign trade balance of agricultural products even worse since you cannot predict long-term trends and supplies, insufficient earnings after paying for required inputs (small gap between input and output prices) that leads to unfair distribution of profit along the value chain(production, processing and placement of agricultural food products) in agribusiness. In such unstable environment made by internal and external conditions, it gives agricultural companies and individuals (farmers) impression of lacking in security for choosing their right future marketing strategies, which are expected from them by the markets (domestic competitors and customers and foreign competitors and customers). All these restrains could be amortized and reduced by the right decision which Serbian government and policy should take while they are on the road to accession to EU.

8 Case Studies

The final stage of this paper is the empirical part that should show descriptive interpretation of the participants inside different organisations reality, that involves the way of looking at the processes and situations from the interviewer and participants and to enlighten the relationship between captured implications as variables within reach proposal. Before that theoretical framework and empirical part of Serbian agriculture in this paper gave the starting point of the context of variables and their possible influence on each other. This case study will give detailed examination and description for each of three companies according to Porter's Value Plate and the structure of supply chain that with possible capacity and capability will determine current and future marketing strategy according to new markets in EU and institutional influence from EU, Republic of Serbia and mutual synchronization as well as consistency in terms of implementation. Majority of information for this case studies are gathered trough the interviews with owner, CEOs, managers of the companies. Complete interview guide with questions in it are available at the Table 19 in the Appendix. On the other side value part of information for this detailed analysis are collected from the companies' documents, websites, promotion materials, newspapers.

8.1 Agro Eko Voće

Agro Eko Voće is the general agricultural cooperative, established in year 2013 in city of Arilje in the central part of Serbia. In the period of 10 years has grown in the first big cooperative of that sort in Serbia, with bases of over 100 co-operators/suppliers of fruits/farmers that represents tradition in production of healthy food and commitment to preservation of the value in production and processing of Arilje's raspberries.

Figure 23: Logo of Agro Eko Voće

Sources: Official website Agromedia , 27.12.2016, "*Saznali smo šta nedostaje srpskom malinarstvu*", Available at: https://www.agromedia.rs/agro-teme/vocarstvo/saznali-smo-sta-nedostaje-srpskom-malinarstvu/

Other than raspberries this cooperative does production, production and trade of strawberries, blackberries, blueberries, currants, and plums. At the begging, even without any support of local and regional institutions, they managed to buy arable land for fruit production, place for office and first building, together with freezing storage and to start group production as a new organisation. In order to manage next steps of their market strategy (production, storage, distribution) they took a loan worth 300 000 Euros from commercial banks that they are still paying out. After they assessed their capacities, capabilities and goals they realised next logical and sensitive way to increase probability for the greater profit is seen in future export.

In 2014 and 2015 they added new premium Italian sorts of raspberries like Fertudi, Tulamid inside their primary production portfolio.

In 2017 when the first open call of "Support program for balanced regional development of Serbia" was made for cooperatives type of organisation, irreversible investment in amount on 12,5 Million RSD (around 105 000 EUR) Agro Eko Voće used it for upgrading production process and new processing technologies . Such upgrade back than gave them a big push toward their goal of adding value to their final products and chance to diversify at market place to be more competitive with rivals and to fulfil more wishes of customers which they could not manage just by having freezing storage that was available until that governmental financial support.

When it comes to the technical aspect of SCM, the company possesses its own mechanisation (tractors with different connections) for primal production, quads for collection people management and trucks which some of them have been used for transportation of seeding material and others for allocation of final products to the buyers and middleman. (147-149, A) Additionally, Agro Eko Voće next to indirect possession of the fields under raspberries from its co-operators it has its own raspberry field of 5 ha in the circle around headquarter and storage room as it is represented in the figure 24. These fields have different production and supporting equipment in way that some are covered with part of greenhouse production, part open but the whole surface is under irrigation system and anti-hail system. (149-151, A) The capacity of the freezing storage room is 200 t but during the season with proper modulation and rotation techniques it can reach 500 t of fruit per season. (123, A) The whole developing production and processing philosophy of different kinds of raspberries and final products are divided in four characteristics:

1. One type raspberries treated in the form intensive way of planting is used fresh as final product with a minimum of added value.
2. The special type of raspberry called Willamette is treated with extremely cold temperature and have been sold in frozen form. By doing so, it gives opportunity to Agro Eko Company to

strategically plan the best timing to sell at highest possible price by giving extended freshness and possibility to be modified in different final forms of final product.

3. Dehydration and drying of raspberry is becoming popular form of end product that can be used as raspberry flour.

4. The final grouped diversification of the raspberry is actually hot processing that by doing so juices, compotes and jams are created. Peculiarity and added value of these final products does not stop there, they combine other fruits, mostly apples, strawberries, blackberries so that ultimate buyer has much more option and possibility to satisfy their desires. (14-18, A)

Figure 24: Headquarter with freezing storage room and raspberry field

Sources: Official email of Agro Eko Voće's CEO, 18.07.2022.

Next big project that that happened in recent years activated five different units in five different regions (from south part of Šumadija) was financed by Ministry of Rural Care with 500 000 EUR, and its goal is to connect these units (cooperatives) in complex form which synchronized can influence the market with greater force primarily in quantity, quality, organization and by helping each other. Therefore all financial support was used for production, processing and distribution. It is important to mention that COVID-19 made significant negative impact in realization of this project, that is the reason why the process still goes more slowly than it was initially projected.(261-263, A; 265-272, A)

To the question, have they been directly influenced by some changes in Serbian agricultural laws that was suggested or influenced directly by EU intuitions, CEO replied that when it comes to the direct influence of EU with its agricultural institutions (bodies) use powerful legislation, and they suggested Serbian agricultural institutions to change its regulation by introducing changes inside the Law for processing fruit for small and medium agricultural holdings, that made it possible to process certain amounts of fruits and to sell it in their region. That lawful change was well received and implemented. (176-180, A)

Through the years with financial support of the government and internal desire to grow in many different directions and levels in order to raise their competitiveness and core competence that will help them to direct its final products into more premium segments, they managed to incorporate various standard certificates. Some of them are:

1. **Indications of geographical origin**- "Protection of products and services by indications of geographical origin is useful in many ways because it represents the exclusive property right that authorizes its holder to prohibit another from using the protected indication in the channels of commerce. It also represents the significant marketing tool that guarantees the authorized user the competitive advantage on the market, since it has controlled and special quality of product and its origin. Certain products represent part of the tradition and national identity, the thing that makes one nation or state recognizable in the world. The state becomes a synonym…Arilje raspberry and other products". (Official website of International Property Office of Republic of Serbia, (24.11.2024), "*Indications of geographical origin*", Available at: https://www.zis.gov.rs/en/rights/indications-of-geographical-origin/)

ARILJSKA MALINA

Figure 25: Indication of geographical origin for Arilje raspberry

Sources: Official website of Posh & Media, (24.11.2023)," Ariljska Malina, Available at: https://posh.rs/gallery/srpski/ariljska-malina

For example European Commission is in the process of recognizing this project for assigning Indications of geographical origin of Arilje raspberry with the help of Ministry of Agriculture of Serbia, which should follow the example of countries in EU that use it for the marketing of countries and theirs agricultures at international and domestic fairs and festivals. Until now Republic of Serbia in the eyes of Agro Eko Voce's CEO did not use that chance as much it could, but he hopes that will change in near future. (114- 122, A)

2.Next GLOBAL G.A.P. - represents certificate that in recent years nearly all food and market chains are requesting in order to be able to sell highly safe food products.(185- 186, A) Focuses of this certificate are: Food safety, Environmental sustainability, Workers' well-being, Animal welfare, Supply chain traceability, Capacity building. (Official website of GLOBAL G.A.P, (24.11.2023), Available at: https://www.globalgap.org/about/our-impact-areas/)

Certification of Global Gap is made by private certification agency recognised by Ministry of Agriculture and Water Management of Serbia, whereas Indications of geographical origin was made by International Property Office of Republic of Serbia. Finally each year "Food safety law" have been practiced by agricultural inspection body that issues certain food analysis. (190-191, A) Additional governmental body like Institute for Public health makes sure that all standards (hygiene, pest control, systematization) inside processing facility have been met.(193-194, A)
Next to such high standards proven by above mentioned certificate, the intrinsic quality of the processed products of Agro Eko Voće have been on purpose designed by the highly educated experts in that field like Prof. PhD Mile Veljović, from University of Zemun that made the receipts for products that will be premium quality where they contain 100% fruit, and they do not have any additives or preservatives. (225-228, A) The Same support was shown by Prof. PhD Keserović in his field of primary production without any monetary compensation. (230-233, A) Additionally, many medical scientific researches showed that Arilje's raspberry has been proven to be one of the best in the world. (368-370, A)
The CEO Mr. Joković, thinks that such well-developed (until now) high value products should have much better marketing and managerial support by the government that should assign skilled personel that will raise the story about Arilje raspberry and its products to world scale. (237-242, A) At this moment agricultural advisory services (part of Ministry of Agriculture) do not have capacity to share useful information (top to bottom) regarding the new technologies, public calls, new laws since there are not so many and AH and companies to many, therefore better relationship between cooperatives and advisory services is mandatory, since cooperatives could more efficiently share this information with their members. (251-255, A) When it comes to subvention, government should pay attention to the misuse of the new law on subsidizing newly established agricultural cooperatives, since they only form cooperatives for the sake of financial gain.(40-41, A) In that sense these newly opened cooperatives should not be supported to be just trading companies but companies that create initial products and end products.(300-302, A) So EU funds are insufficiently used as they could be, in the opinion of CEO Mr. Joković and that that application should be directed toward companies and AHs that do primary food production and processing

that add the value to the products for future customers. (346- 350, A) There is also certain degree of favouritism by the Chamber of Commerce and Industry of Serbia toward the ten agricultural companies, where they present them at fairs, bring them customers and other companies feel neglected toward such behaving of the governmental (public) body which should serve them all equally. (352-354, A)

The way how Agro Eko Voće perceive its products it is nothing less than premium. The reason why they see their products in such manner is firstly the level of standards they are using while their producing and processing raspberries and its byproducts, secondly intrinsic value in terms of preserved high nutrients while doing cold pressing and pasteurization, thirdly worldwide known culture and strain value of Arilje raspberry and finally design of quality of packaging (glass and paper) in the limited amounts (exclusive). (307-310, A; 314-321, A)

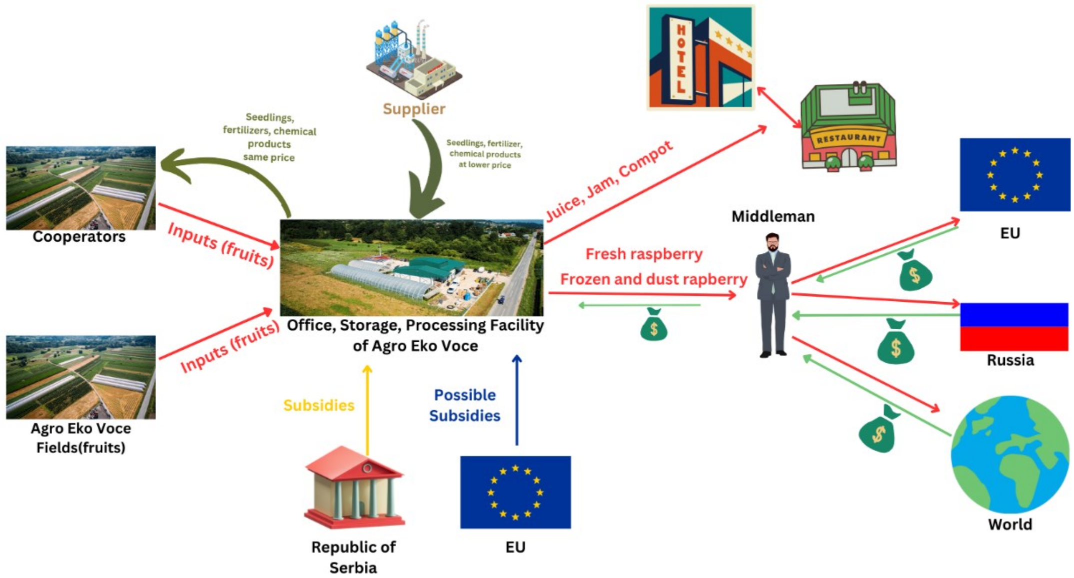

Figure 26: Supply Chain of Agro Eko Voće

Sources: The work of the author of this mater thesis

In the graph presented above at Figure 26, it could be seen that Agro Eko Voće have two ways of getting inputs (raspberries, apples, strawberries) in their natural form, and that is from the fields of their co-operators and from its own fields. Other type of supplier comes from the companies which bring seeding material, fertilizers, pesticides and other necessary things for primary production. The supply of these inputs has been than directed from Agro Eko Voće to their co-operators/farmers with no commission for its service, the only thing that is agreed in return is that farmers are obligated to bring their fruits after they have been freshly harvested. Collecting bigger amounts in their freezing storage rooms, they can use it as their bargaining power toward the market and middle man in order to request for better conditions since the most of their product share (fresh raspberry, frozen and dust) is directed/sold through the middleman. The biggest drawback and hindrance to the development of producers is the unorganized way of exiting small and medium-sized producers to the real market in order to reduce the influence of intermediaries (between farmers(cooperatives) and buyers) who dictate the time, quantity and price of almost all types of products. Such organisational and administrative structure could not be formed without initial support of the government and agricultural policy. Such a system of "fruit exchange" exists in Western Europe, where numerous cooperatives are connected, where they influence the market situation with their goals and possibilities. (62-76, A)

Agro Eko Voće stores its products, processes them in different products, with additional value. Each of the products are differentiated form its competitors with a proof that only organic and local fruits are used and that processing part was also made in Serbia by the Serbian company. These products (juice, jam and compote) are further directed with its own transportation via two distribution channels and final destinations of these products are reserved for exclusive hotels and restaurants where they offer high value domestic food that is in perfect alignment with what Agro Eko Voće offers.

Finally some external financial support has been allocated from the bodies of Serbian government and ministry of Agriculture but the main and long awaited support for the farmers-co-operators and Agro Eko Voće as the company should be the moment EU makes a huge step toward (at this point of time, but with better organization of Serbian institutions and even greater the moment Serbia becomes EU member state) the financial support through the different funds: Direct Payments, IPARD, Field to Fork. Such financial and knowledge support would give these actors much better perspective for positioning themselves and its products to the local and foreign market.

Value Plate of Agro Eko Voće

Inbound Logistics: Relationship with suppliers in this case has two goals since it is connected for two different reasons. Co-operators/farmers bring to Agro Eko Voće all their raspberries and other fruits, for such transactions. Agro Eko uses its own transportation vehicles. In return these cooperators get better price for their fruit and the input material at lower price. Those inputs/raw materials like new stems, fertilizer, and herbicides are negotiated by the Agro Eko Voće for bigger quantity at lower price than usual. With such control, AEV (Agro Eko Voće) can manage to plan which type of raspberries will be planted and how much. So they can organize themselves for future prediction. What they prepare that season, they get. So they are controlling two types of streams of supplier. From Italy with his new stems, fertilizer, herbicides and from local their partners' fruits, than the boomerang effect is established in the sense of getting the control over the quality and quantity of raspberries from their partners. That moment the competitive advantage is based on knowing amount of raspberries, type and quality which they can expect for their products with added value that would be sold to final customers or buyers/middleman. Collection of the raspberries for a cooperative (AEV) is very easy, since it is located in the center of the region famous for raspberries that makes for cooperators easier to reach cold storage even right after they are harvested in the orchard. Since raspberries are harmful, the need for professional cold storage is crucial in their production

Operations: AEV has different kinds of cooperators with different type of the raspberries which come in different time so they can extend the season time. By having that strategic capability they can prepare for better prices during longer season. So, if something unusual happens in the market they can react accordingly. AEV has his own 5 hectares of raspberries, so it is not totally depended on his cooperators/suppliers. Moreover it has other type of the fruits which allows them to differentiate their products in the way they want or have to. So they are very flexible. (149-151, A) As additional plus to that, is flexibility that gives the cold storage with capacity over 500 t throughout the season.(123, A) Raspberries are very gentle products so they should be put to use very fast. Capability and capacity through the juices, mashies or cold storing gives them competitive advantage in comparison with its competitors. It is also important to point out, that the process of creation of juices or jams are made with cold pressed technique or very low heat, with no added sugar or additional substances in order to keep all of organoleptic properties in the final product filled into glass packaging.(314-321, A)

Outbound Logistics: We already described the capacity of cold storage. That cold storage for this cooperative makes it in nearly every aspect competitive advantage, with its size, modularity, technology which are at high EU level since AEV has such pretensions. (204-205, A) When someone agreed to buy some type of the product it does not matter if it is jam, juice, fresh raspberries, AEV is capable to use its storage room for keeping that product until buyer needs it. So it gives flexibility to the customer, middleman. Additionally it can also profit for extra charging storage service at lower price since it is parallel used for its own products. High safely level of hygiene would be present the whole time since the storage room is at constant monitoring state from the private and governmental bodies. (190-194, A) Potential which AEV is trying to reach in last couple of years it is based on the regional capability of raspberry production, since 30-40% of whole raspberry produced in Serbia is based in Arilje region, where AEV has a major role, bearing that in the mind that is the characteristic that can positively influence the reliance of buyers and middleman on the upcoming higher production quantities of AEV and whole region.(113-114, A)

All suppliers buying this products would receive various certifies: Indications of geographical origin, Global Gap, HACCP, Product traceability. (136-137, A) In the case where buyer does not have transportation, they can be additionally serviced by AEV, since they have in possession few transportation vehicles for final products. (147-148, A)

Marketing and Sales: The cooperative has strong base of the farmers which are trying to be united and stronger. By doing so they are willing to prepare themselves for bigger markets and bigger parts in that market. They are doing step by step since they are not recognized so much from the government as much they think they should. (237-240, A) So basically with quality and special origin of the product as fresh raspberries they are trying to pave a way to the customers. In order to satisfie their needs and wants they tried with different products but with the same philosophy, that is high quality, 100% natural and local. (314-316, A) For the product with added value like juice and jam are from 100% raspberry they are only selling over high class and well known hotels with whom they can trust and with whom they can identify as premium local product. (225-226, A) To that part many certificates play significant role in proving the value for the price which is paid. On the other side AEV sells fresh raspberries, frozen raspberry, raspberry's dust which are products made in bigger amounts,(157-158, A) meant for bigger markets and are expected to be in upcoming years more directed to EU market where the price is much higher than at traditional exporting countries like Russia or neighboring. In the end, additional safety aspect of AEV's products is that different experts work on the development of the final products and by doing so they added extra value. (226-228, A; 230-234, A)

Services: Many scientific dissertation have been written about how raspberry of the Arilje region is special in terms of nutrition quality, and for that they got a certificate of geographical origin. (369-370, A) That certificate is very important in order to get recognized from local and international buyers. To prove that quality certain standards have to meet and some of them are: Global G.A.P. which represents one of the highest standards in the world which wants to show buyers how products have been produced.(185-191,A) That is proven through many practices like: "restricted and controlled usage of all types of agrochemicals" (https://haccp.rs/gap-globalgap/), "*you have to have clean transported vehicle, then you have to have the presence of water, toilets, a place for sitting, resting workers protected in the fields. Then you have to have a section for harvested products in the field, then you have to have a separate storage for repro material, all separate from pesticides, fertilizers and working uniform"*. (215-218, A).

Firm infrastructure: The development of this cooperative's infrastructure started even before cooperative even was formed. They have idea of becoming a strong enterprise which will help them fight for their spot in the market. This struggle was 10 years long, from the first privatization until year 2012 when their existence was finally recognized and acknowledged from the government. (23-29, A) Afterwards they are creating their strategy step by step without actual help of anyone and even government. Firstly, they bought the land for the planting, cold storage and production, than they raised the loan from the private bank worth 300 000 EUR. (41-43, A) By such clear strategy and focus they managed through the years to create as their CEO would said "*we have impressive production, impressive processing, we have an impressive cold store that we can freely boast of*" (45-46, A), he is aware of the work they had managed so far but he also added "*and we still need to enter the foreign market, which we will try to solve. Because we will collapse our production if we do not adequately enter the market*". (48-49, A) It is important for any top managers to know where they are standing and to know what their obstacles and goals are.

Human resource: In Agro Eko Voće, Mr. Božo Joković the founder and CEO of AEV is in charge. With his personal property he was granted the loan of 300 000 EUR by the bank for the development of this cooperative. It is also important to point out that each co-operator/farmer invested 100 EUR as the signup fee that was used for day to day operations and other significant strategies. (53-57, A) At the moment there are around 100 co-operators which use the service of AEV by getting the inputs at lower price together with insurance policy and ensured purchase of primary products at the highest possible price.(125-132, A) So basically, everybody can be the part of the AEV team as long as they follow certain rules, and regulations prescribed by certification bodies and governmental institutions. The setback of this branch is that, there are not enough agricultural advisory services (governmental body) that should share the right information, news, technology toward agricultural companies and farmers. That is the reason why government should invest more into cooperatives similar to AEV, since they are great source and mediator of information from government to farmers. (251-254, A)

Technological Development: There are 4 significant segments emerged during development of this company. Firstly they have cold storage with all necessary stages like: reception, packaging, fruit sorting that afterwards goes to the tunnel with deep-freezing function of 15 tons per day and storage room for such fruits capacity of 200 tons. Secondly, the other cold storage room just for cooling down fruit and to pack them with capacity of 50 tons. Thirdly is combination of the line dryer for food dehydration (15 t/day) and modern line of mills for grinding dried fruit which make fruit flour out of it. Fourthly, an installation which is a part of production line for warm products like jams, juices and compote with capacity of 1 t/8h. (86-95, A) Additionally, all 5,5 hectares which Agro Eko Voće possess, are covered with fertigation and irrigation systems which water automatically comes from two artesian wells. The 1.5 hectares are inside greenhouses and the rest 4 hectares are in the open field. (103-106, A) Moreover they are planning during a fall 2023 to plant and organize: extension of raspberry's sort called Enrosadira with anti-hail and rain protection, 1ha of Vilamet type of raspberry with anti-hail safety measures and additional strawberry 30 000 seedlings will be planted in a greenhouse with shelves technique, that will make capacity of this greenhouse efficient in terms of yearly yields and effective in terms of the timing of earlier ripening period (at which it is sold at a higher price) and the quality of this sort is better than the older ones with the same properties.(341-345, A)

Procurement: Since human resources' base of AEV is constructed in a bit of an unorthodox way than in the most of the companies, where the main supplier of the inputs are also main partners and shareholders, therefore they are in best position since they get all inputs (seeding material, pesticides..) at lower price, and they get paid at the highest possible price in that moment for their final products (raw materials/inputs for AEV).

Margin: Overall the margin of AEV exists, and over the years it changed its numeric value. But with their goals of creating a unique product in Serbia and EU with special local recognition certificate and the methodology of creation, first primary, and then after processing phase the also final products with extra added value based on different aspects, and possible entering to new EU market that possesses greater purchasing power, their margin will for sure increase. Of course they

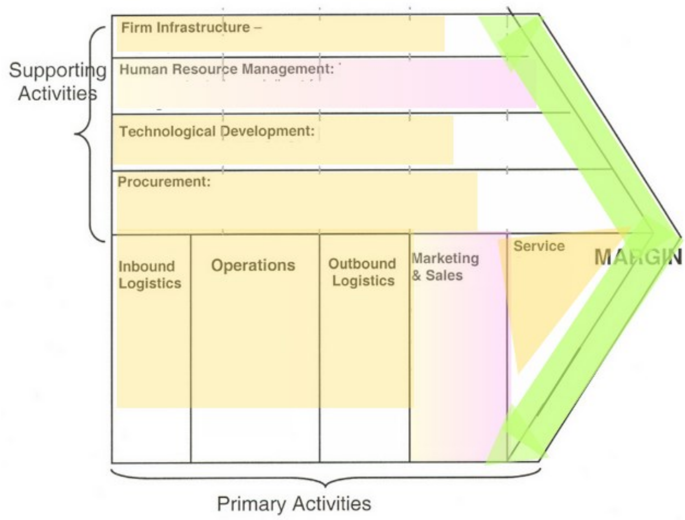

Figure 27: Value Plate of Agro Eko Voce (AEV)

Sources: The work of the author of this master thesis

have to keep on improving with work on their already well developed "primary activities" (Inbound logistics, Operations, Outbound logistics, Services) for positioning their co-operators/farmers and their suppliers in coherent relationship as well as independent bases input/resources, modern technology and respectful certificates. On the other side Marketing and Sales need to be organized in such way so that AEV and similar firms can gain the percentage of profit that middleman accounts for its services, that problem can only be solved with the help of governmental institutions since the export/import lobby in Serbia is too strong. On top of that they ask for bigger recognition, promotion and financial support from government so they can reach potential EU customers before Serbia becomes member. When it comes to "supporting activities" (Firm infrastructure, Technological development, Procurement) they are in direct correlation with well-established primal ones, but they share also problems of a HR Management where interrelation with government should be two-way street where also cooperative's/farmer's voices , needs and wants need to be heard. Combined improvements will lead to the more fulfilling differentiation strategy they are, since the beginning, striving toward.

Porters Five Forces of Agro Eko Voće

Treat of New Entrants: *Low to Moderate*

- **Barriers to Entry**: The high initial investment in specialized cold storage, advanced production facilities, and extensive land holdings presents a significant barrier. Additionally, obtaining certifications (Global Gap, HACCP, Production traceability) essential for high-quality organic production is costly and time-consuming.
- **Brand and Quality Recognition**: Agro Eko Voće's established reputation for high-quality, organic, and locally sourced products creates a strong brand presence, making it difficult for new entrants to achieve similar recognition quickly.
- **Exclusive Distribution Channels**: The company's established relationships with exclusive hotels and restaurants further reduce the threat from new entrants who would need to build similar networks.

Bargaining Power of Suppliers: *Low*

- **Multiple Supply Sources**: Agro Eko Voće sources inputs both from its own fields and from cooperators/farmers, which reduces dependence on any single supplier and increases bargaining power.
- **Bulk Purchasing and Supplier Relationships**: By negotiating lower prices for bulk purchases of inputs like seeding material, fertilizers and pesticides, Agro Eko Voće minimizes the bargaining power of suppliers. Strong, established relationships with suppliers also ensure a steady supply of high-Quality inputs.
- **Quality Control**: The company's control over the quality and type of inputs ensures that suppliers adhere to stringent quality standards, further reducing their power.

Bargaining Power of Buyers: *Low*

- **Product Differentiation**: The unique selling points of Agro Eko Voće's products, such as organic certification, geographical origin certification, and premium quality, provide significant value to buyers, reducing their bargaining power as they cannot easily find substitutes of similar quality.
- **Exclusive Markets**: Targeting high-ends hotels and restaurants where quality and exclusivity are prioritized allows Agro Eko Voće to command higher prices maintain stronger control over pricing.
- **High Quality and Certification:** The numerous certifications and quality assurances attached to Agro Eko Voće's products further enhance their appeal to buyers, justifying premium pricing and reducing buyer power.

Threat of Substitutes: *Low to Moderate*

- **Unique Product Attributes:** The focus on organic, locally sourced, and high-quality products with special certifications provides a significant edge over genetic alternatives, making it difficult for substitutes to match the same level of differentiation.
- **Value-Added Products:** The development of unique value-added products like juices, jams, and compotes through specialized processes (e.g., cold pressing, no added sugar) reduces the threat from substitutes that do not offer similar health benefits and quality.
- **Customer Loyalty:** The high-quality, certified products foster customer loyalty among high-end buyers, further reducing the threat from substitutes.

Industry Rivalry: *Moderate*

- **Regional Dominance:** Agro Eko Voće's strong presence in the Arilje region, a significant raspberry-production area, provides a competitive advantage, although rivalry remains high due the concentration of similar products.
- **Product and Process Innovation:** Continues innovation in production processes (e.g., low-heat processing, organic certification, drying out, adding cholate) and product offerings helps Agro Eko Voće stay ahead of competitors. However, maintain this innovation is essential to fend off rivals.
- **Exclusive Marketing Segments:** By focusing on niche markets such as high-end hotels and restaurants, Agro Eko Voće reduces direct competition with mass-market producers, though rivalry within the premium segment remains.

Conclusion:

Agro Eko Voće's differentiation strategy effectively leverages its unique product attributes, high-quality standards, and strong brand reputation to mitigate competitive pressures. The barriers to entry are reinforced by significant initial investments and quality certifications. Supplier power is minimized through diversified sourcing and bulk purchasing, while buyer power is contained through exclusive distribution channels and product differentiation. The threat of substitutes is reduced by the unique quality and certification of products, fostering customer loyalty. Industry rivalry remains moderate, necessitating continuous innovation and quality maintenance to uphold the differentiation strategy. This all represents good basis for the moment Agro Eko Voće with its products enters to EU market in much bigger quantities and better marketing support and recognition of Serbian government. The help (financial support for processing capacities) from Serbian institutions create huge step forward more organized management and fulfillment of their wanted strategies.

8.1.1 Findings of the Case Study

A company outline described above was formed with the use of the information held from the interview and data collected from other websites, since Agro Eko Voće does not have its own website. All possible data required for description (evaluation) of this case study was assessed by the comprehensive questionnaire. The questioner was personally held and presented to the founder and CEO of Agro Eko Voće on Serbian language. The questioner was also translated in English so that the possible bias that could arise from misinterpretations due to different communication languages (Serbian) is minimized. Following, the propositions of the theoretical framework will be investigate and by doing so the possible findings and results of the questionnaire will arise. The major focus will be on the matter that this specific case is example of diversification as a marketing strategy and influence of governmental institutions during the process of Serbian accession to EU.

First Preposition: Accession to EU gives Serbian agricultural companies opportunities (new market, accessibility, funds) to use resourcefully and more planned their value chain which possible leads to higher organizational gain.

The first preposition could be supported. At the beginning, from the data given as the example how companies and farmers raised their general wellbeing after their country entered to EU and national agriculture under the EU funds/institutions and market place. Going further in the case of Serbian agriculture, huge improvements have been made when it comes to products and export of agricultural products. These products comes from agricultural firms like Agro Eko Voće. During these years and even the recent ones, it is obvious with every financial project (from the government or personal) AEV was able to make huge step forward in terms of development of primary bases of the inputs (new fields, new variants, protection) as well as other parts of the value chain. These parts are cooling storage room that gives them a chance to prolong the time of selling the product and better conditions for buyers, the modern processing technology that gives them premium end product with added value. Finally, fulfilled various safety, hygiene, processing and transportation standards throughout the whole value chain that add its own significant part, that in the end makes important positive impression by the buyers and their readiness to buy the products. It is important to point out the balance which is made when it comes to profit allocation between AEV and its co-operators that shows good working ethic, understanding and common goals between business partners.

***Second Proposition**:* The process of the accession of Serbia to the EU forces different parts of the value chain of agricultural companies to adapt, primarily resorting more to the preference of **differentiation strategy**.

The second proposition could be supported. In the last 10-15 years technological development and geopolitical interrelation inside EU has been drastically changed together with the size and complexity of EU's agriculture, institutions, laws and regulations. And over that period it was a constant leader that all countries (members of EU or not) had to look up to and follow. Serbia had such a position with its own agriculture and firms, since it is the most depended on relation with EU on the market, geopolitical and institutional bases. Maybe the AEV is not, at the moment, the best representative when it comes the marketplace where they export their products, but CEO and founder constantly forming his strategic and market decisions based on the experiences and examples he saw in the companies of the developed member states of EU. His idea of establishing cooperative was created as an example of good and sustainable business practice working and profiting inside such organized and unique system as EU is. Afterwards he realized the only way how these firms stayed so strong and profitable is the quality and peculiarity of their products. That is the moment he wanted for his products to be recognizable world-wide with the "Indications of geographical origin" and many other certificates as well as experts' dissertations that managed to create, with modern technology, unique products, with high quality in terms of internal ingredients and outside such as packaging and labelling. As an additional evidence that proves this proposition is that their only active marketing of AEV are word of mouth and big fairs, that until now were enough to sell their limited amount of the high-end quality product at higher price than their competitors.

Third Proposition: The problems which are existing in this cohesive structures **(in legal structures- governmental application of the Law**) that they are resulting in slowing the progress towards the less efficient one of adaptation of the value chains and strategy towards what should be.

The third preposition could be supported. As we saw in the beginning in the case of Serbian agriculture many structural, legal, financial fluctuations happened through the years from the moment Serbia became active candidate for Accession to EU. In that process Serbia agreed and adopted many new laws, projects and financial supports and the most important project that sums that all is IPARD programme. In the official data analysed above, Serbian bodies did not use these resources as they were agreed upon. Therefore many (hundreds) internal projects have been missed and never realized but only a couple of "close to government firms" had actual help and total allocation of the funds. That story is proven also by the CEO of Agro Eko Voće where he stated that „*You have one Chamber(of Commerence and Industry) of Serbia, which only pays attention to a dozen companies that are led, taken to the fairs, and bringing customers to them. If that chamber is supposed to be a service for those dozen or so companies, why do the rest of us exist?*"(351-352, A) On top of that he added that this marketing support should be initiated by the government and they should organize managers that will educate cooperatives on various subjects. (237-242, A) That idea of not supportive government goes back in the time when the CEO and owner Mr. Jokovic wanted to set up this cooperative by buying a land, seeding material, transportation and preparation of administrative and legal aspects. So without constant support of the government when it comes financial, educational and legal care it is hard for companies to maintain and advance their parts of value chain and to prepare adequate business strategy in the long run.

8.2 Medino

Medino, as part of holding company “Cmana d.o.o. Krnjevo”, represents the honey firm that collects, process, distributes and exports the honey in most of the EU countries. Their HQ, processing plant, storage room are located in the village Krnjevo (city Velika Pana) in the central part of Serbia. In very short period of time it became a leader of honey industry in Serbia when it comes to the high quality, certified honey with market share over 50%.

Figure 28: Logo of firm Medino

Sources: Official facebook page of “Medino”, (2023), Available at:
https://images.app.goo.gl/ayppn9LuEkZU2u9o7

It was established in 2004 and right away they started with the collection of honey from the local beekeepers and they used their one and only packing machine (bought in 2006) to place honey in the small containers of 25g that would be afterwards distributed to the market chains in Serbia.(11-14, B, S2) After 4 years since their arrival onto the market, one of the crucial points in the historical development of this firm happened with their first product export with the support of the middleman, afterwards the next exporting transactions was made on their own.(14-15, B, S2) That selling option, made a huge shift into deciding which business strategy they will use from now on, since the quality, standards and price was way above the competitors in Serbia and buying potential of customers in Serbia. (17-23, B, S2) First they created the honey’s product brand “Krnjevac” for local markets (Serbia, Bosnia and Herzegovnia, Montenegor, Macedonia) and afterwards with creation of the solid partner’s base all around EU, they decided to create additional honey’s product brand “Woodland”.

Figure 29: Honey types of Krnjevac

Sources: Official website of Medino (2023), Available at:
http://medino.rs/proizvodi/

Figure 30: Same honey types under Woodland brand

Sources: Official website of Medino (2023), Available at:
http://medino.rs/en/proizvodi/index

Sources: Official website of Medino (2023), Available at: http://medino.rs/en/proizvodi/index
At the moment, the firm employs 21 workers across different departments, and current capacity of honey production is 4000t a year and in 2022 they collected 1500-2000t of honey from the beekeepers from all across Serbia and from that number they exported 1200t of honey and its products. Their main versions of the packaging and amounts of exported honey are in the barrels or in the glass jars, it depends how customers want and how Medino wants to position itself. For some local markets they have also strategic option of outsourcing (creation of new brand) for some retail stores like they have been doing for "Metro Cash & Carry" for the last 7 years. (53-56, B, S2) At the moment, as represented in Figures 29 and 30 Medino produce Acacia, Flora, Meadow, Linden regular (conventional) type of honey. Other than that Medino makes Acacia and Linden as organic differentiated forms of honey as well as other bee's products and mix of products like: Royal Jelly, Pollen and Propolis in the honey or separately from the honey. (57-62, B2, S2) From the total export of the honey and honey products in Serbia, 55% has been made by Medino and exported mostly to the countries like: Italy, Norway, Bosnia and Herzegovina, Germany, Montenegro, Macedonia, Belgium, France, Denmark, the Netherlands. (70-72, B2, S2) The next big moment happened when they wanted to have indoor laboratory whose capabilities of honey testing is on the level of EU agencies and laboratories. That strategic move made in marketing and

SCM made a gap in terms of core competence and efficiency between Medino and Serbian (possibly in the Balkans) competitors. (36-40, B2, S2) In order to reach these EU member states and their markets, partners and customers Medino needed to organize its firm at the highest possible certified standards when it comes authenticity, purity, hygiene, ethicality and healthy benefits of theirs' products. They managed that by fulfilling various laws, regulations (Serbian and EU) and certified standards like:

- BIFC standard, British standard needed for export to Great Britain
- "IFS Food - is a standard recognized by the Global Food Safety Initiative (GFSI) for auditing food manufacturers. Food production and processing today is facing far higher demands than ever before. On one hand, consumers want maximum transparency. They want to know where their food comes from, how it was produced and processed and how safety, quality, sustainability, and ethics have been ensured." (Offical website of TÜV Rheinland, (2023), Available at: https://www.tuv.com/hungary/en/ifs-food.html) (42-47, B, S2)
- Certification for Organic production and its final products (58-59, B, S2)
- "Stamp of Čuvarkuća" provided by Chamber of Commerce as proof that this product (honey) is made and collected by Serbian farmers/beekeepers and afterwards processed and packaged by the Serbian workers in Serbian company. (328-330, B, S2)

Figure 31: Logo of "Žig Čuvarkuća"

Sources: Official website of Chamber of Commerce and Industry of Serbia (2023)," *Право на жиг „Чуваркућа" добило 75 домаћих производа*", Available at: https://pks.rs/vesti/pravo-na-zig-cuvarkuca-dobilo-75-domacih-proizvoda-3101

- HACCAP (188, B, S2)
- ISO 9000:2008 quality management system (Official website of Medino (2023), http://medino.rs/medino/upravljanje-kvalitetom)

- FSSC 22000 represents “food safety certification scheme based on the existing internationally recognized standard ISO 22000 and complemented by technical standards, such as ISO TS 22002-1 for food manufacturing and ISO TS 22002-4 for packaging manufacturing.” (Offical website of TÜV Rheinland, (2023), Available at: https://www.dnv.com/services/fssc-22000-food-safety-system-certification-scheme-5161)
- Traceability at Medino is significant since it shows the path how honey was taken, at what time, what amount, in what batch it was mixed and so on. (331-333, B, S2)

In order for products to stay in the best possible quality during the long period of time, since the honey has such ability, it is needed to use other necessary inputs like barrels, glass, lids, covers, labels from the certified suppliers. In case of Medino they strictly pay attention to these aspects, since the honey is very delicate and gentle food that is prescribed for babies. The supple of lids has been managed by two suppliers, from Slovenia and Hungary, and for the Medino’s honey jars are imported from Bulgaria and Poland, again from EU suppliers. (That proves again that it is easier to search and to relay on the partners from EU since the same EU laws and regulations have been implemented across member states, therefore all suppliers must follow it in order to be properly accepted by the governmental institutions, partners and afterwards by customers.

Some regulations Mr.Ivan Grujić listed:”

- *Legislative decree 179/2004 Implementation of Directive 2001/110 EC on the production and marketing of honey;*
- *Directive 2001/110/EC relating to honey;*
- *Legistative decree 3/2016 Implementation of Directive 2014/63/EU amending Directive 2001/110/EC on honey;*
- *Regualtion (EC) n. 178/2002 laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety;*
- *Regulation (EC) n.852/2004 on hygiene of foodstuffs;*
- *Regulations (EC) n. 853/2004 laying down specific hygiene rules for on the hygiene of foodstuffs;*
- *Regulation (EU) n.37/2010 on pharmacologically active substances and their classification regarding maximum residue limits in foodstuffs of animal orgin;*
- *Regulation (EC) No 1881/2006 of 19 December 2006 setting maximum levels for certain contaminants in foodstuffs and subsequent amendments and additions*.” (136-146, B, S2)

The veterinary inspection of Republic of Serbia, gets once a year the analysis of the above mentioned certificates and traceability, and if inspections proves validity, it issues a certificate on the possibility of exporting to the EU, “which is called EUR1 that points out “the Origin of the Goods”, and they guarantee that the honey was produced in Serbia, that it was produced by Serbian beekeepers, that it is one hundred percent domestically produced.” (133-135, B, S2) Not all regulations have been logical like in example where they (Medino) needed to withdraw a large contingent of honey in the jar, from distribution centres and/or customers, since the government did not allow “100% guaranteed natural honey “ to be written on the label. In this case, a result in the change rules and regulations has to, when it is made by beekeepers it has to be “natural”. (252-256, B, S2) So cost of acquiring new labels and delayed distribution has been paid by Medino, in order to align with the updated version of new regulations. (256-257, B, S2) On the other side governmental body “Razvojna Agencija Srbije- RAS” or Developing Agency of Serbia, had a program where they supported the agricultural companies with 50% financial support out of total value of the project, and during the open call Medino applied and got support for the purchase of new device called HPLC for their laboratory and its purpose is testing sugar in the honey.(298-300, B,S2) Such Technological improvement which was realized with the help of the state institution made real competitive advantage in comparison to the local competitors and even more important it placed them in the same modernisation level of EU honey production firms. Therefore there is no longer a need for Medino to send extra sample to the EU laboratories in order to check the sugar percentage in the honey, and to use logistical days in their Supply Chain. Now it is faster, convenient, cheaper, effective, and efficient for Medino and their honey suppliers. (309-314, B, S2) This whole applying process, documentation gathering, consulting with the representatives of the RAS was very timely, professional, collaborative and very pleasant from the perspective of CEO of Medino. (303-304, B, S2) Normally, when it comes to governmental bodies and interaction between them and Medino, it was not quite efficient since misunderstandings happen all the time, regarding new regulations, their implementations and jurisdiction of the institute.(277-283, B, S2) This process could be very time and source consuming and that is something no highly professional and well organised company needs.

Supply chain of Medino has been represented down in the Figure 32.

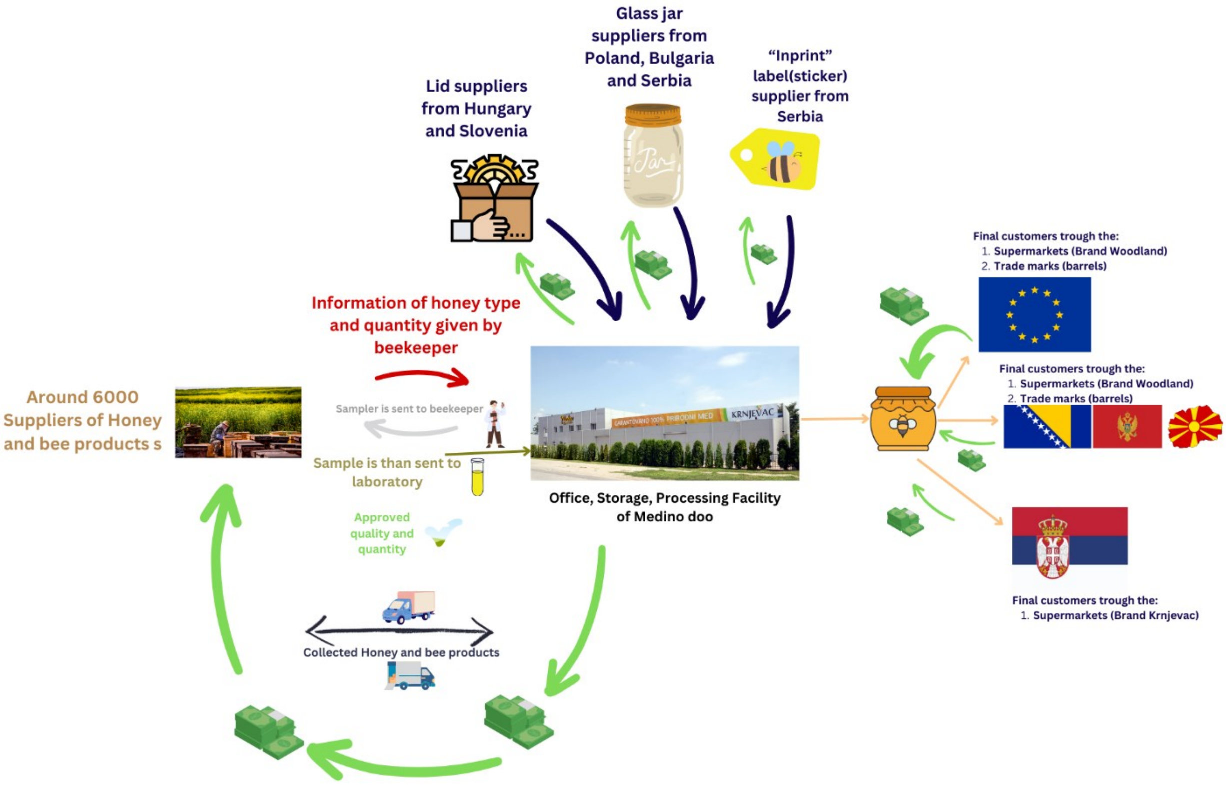

Figure 32: Supply Chain of Medino DOO Krnjevo

Sources: The work of the author of this master thesis

Firstly, as mister Nenad Grujić (S3-Spokesperson) who has been Production manager over the last 10 years in Medino described that the beekeepers as suppliers of honey and bee products, get in touch with Medino's customer service line, where they show desire to sell their products to Medino. Than Medino's check in their databases the status of that beekeeper and then they ask what type and quantity of products they want to sell. After giving such information, beekeeper gets informed on what date Medino's official sampler will come, that will take the sample of the honey and he will seal the barrel that contains sampled honey. After bringing and checking with all necessary analyses like: Maximum residue limits of veterinary medicinal products in foodstuffs of animal origin (89-90, B, S2); Amount of Sugar in the honey (299, B, S2), hygiene of the honey, bacterial analysis. After that honey is separated in storage room in four different sections based on the type of honey. When the selling team decides what amounts and type of honey should be produced in barrels or jars under certain brand, they start with taking out these barrels out of storage room, washing them, they have placed in two 20t capacity chambers. These chambers do decrystallization or making the honey liquid again. After that, this honey has been poured into two big bathtubs that each have capacity of 3t. All beekeepers' barrels that have been mix together in one or more coupages are carefully observed, monitored and listed with help of the SCADA system whose job is to create traceability list of each jar of honey as final product. From these tow bathtubs honey has been pushed through the magnetic filter that cleans big traces of organic materials, than warming pumps that additionally warm up honey for fine decrystallization. Next important step is "Deration" that eliminates air from honey and afterwards it is pushed forward and cooled down. The reason for cooling is to check the level of HMF (Hydroxymethylfurfural) that represents a substance that in higher doses could be toxic and represents the expiry date of the honey. The legal limit in Serbia is less than 40 HMF. After that test is proved, Honey is divided again in two bathtubs that are used as sources for mechanisms for filling and packing of honey into jars or barrels. Filled jars or barrels (that comes from EU countries with EU standards) are labelled and stored into another storage room ready for transport to the local or foreign markets. (195-234, B, S3) Most of the honey in both forms has been sold to EU countries in 2021, mostly to Norway and Italy, the rest of similar export was divided among neighboring countries like Bosnia and Herzegovina, Montenegro, and Macedonia. In local Serbian market it is directly distributed to supermarkets of different Market chains, restaurants, hotels under Krnjevac brand name. Medino uses ATL, BTL and TTL marketing activities in order to reach new customers by branding Krnjevac and Woodland brands and to keep the current once through the various projects like visiting international and local fairs, different quality honey contests, CSR projects.(392-420, B, S4) Marketing manager Katarina Tirnanic (S4 – Spoke person) would describe their market strategy "*Through the aforementioned marketing activities, product quality, know-how that has been applied on a daily basis for almost two decades, we want to achieve differentiation on the market and offer quality products on the market that our customers recognize and are ready to pay for the overall value of the product"*. (428-431, B, S4)

Value Plate of Medino

Inbound Logistics: Honey and bee products suppliers are constant contact through their call center which is using self-developed tracing program. With this program Medino knows what amount, type of honey and when it will be theoretically available for them. In the contract between Medino and beekeepers it is written that after sampler takes sample, supplier are obligated to store and to make it available for them to pick it up. So suppliers do not pay for transportation costs while storage costs are also reduced for Medino until it is picked up by the transportation team. What is also important for suppliers is that they get highly technological analysis of their honey for free and very fast so the suppler can also keep the trace of the quality of his honey. Competitive advantage here is that it creates special bond between the Medino and his beekeepers, in the sense of trust and reliability. None of the other honey companies in Serbia can have such efficient call center, logistics, laboratory and transparency. In the end, financial liquidity in Medino is historically very stable and there are no delays in payments, which for beekeepers is very important since it gives the sense of stability and trust. Suppliers of glass jars, lids, barrels come from EU, and they have been carefully picked in order to preserve the quality of the honey or bee products packed in their products. All of them have EU certificates that proves the high standards of materials used during the creation processes. Combined healthy honey with well-designed and safe packaging gives additional internal value to the Medino's end product.

Operations: Since Medino has two types of selling their product one is through the barrels and jars. The moment they do not need production line for jars they can redirect workers for the other working production line. So in the middle of the first shift they can use the same working force for other processes. Medino has enough of their own storing capacity so they can pick what type and what amount, exactly which beekeepers' honey will be used for the next production process for the jars or barrels. The most important aspect here is the timing, when they want to do it. It gives them flexibility when it comes to managing different orders. On the other side, their own laboratories gives them extra time (competitive advantage) to respond on any kind of circumstances since competitor companies need to send same analysis to the foreign countries in order to continue with the process.

Outbound Logistics: This honey company is obligated before it buys honey from farmers, they need to take samples and assure at their laboratory that everything is fine with honey. Since they have 2 or 3 sample taken constantly and on the road, they are able to use their cars also to deliver small and medium deliveries to their customers, at much lower price since that trip is divided for two particular activities. On the other side, storage of inputs are constantly kept low so that they could have enough storage capacity for final products. Therefore they are, if needed, capable to store already bought products for their buyers, but normally they send it right away. As we already mentioned, Medino does also outsourcing for other firms or supermarkets, when they want to have "their own" brand of honey which also shows readiness and certitude of Medino on how their honey brand Krnjevac has no competitor at Serbian market, since they are ready to compete with themselves.

Marketing and Sales: Has put a lot of effort in marking themselves as any other honey company in Serbia, and positioned themselves as the leader. As Medino's marketing manager would say "*Through ATL and BTL advertising we try to maintain our presence in the market and we try to reach new customers. A constant presence in the market is necessary in order to be selected customers and directed them to buy our products again*".(396-398, B, S4) In that way they are using advertising at national TV stations through the precisely selected TV- shows. Furthermore they using other strategy to present their product through the direct marketing, where they can taste their products and realize the quality they possess. Moreover they are willing to represent their products and openly compete on the international fairies so they can gain recognition for their quality and design (Medino won a gold medal for quality at prestige fair in London).(333-334,B, S2) Every kilogram was tested in Medino's laboratories as well as worldwide known agencies like QSI I Intertek. (344-345, B, S4) Additionally, Medino got trademark (given by Serbian institutions) "Čuvarkuća" that represents that honey was produced by Serbian farmers, processed by Serbian company, packed by Serbian workers and that quality is on the high level and by buying of products with such trademark you support Serbian economy. (328-331, B, S2)Medino in the end wants to show to their buyers that is not just company with high quality honey, with good design, long local history but it is also socially responsible with their many humanitarian projects. Service: For the products which are meant for the export in the barrels which occupy most of the production.(120- 130, B, S2) Buyers of that barreled honey will make in the contract and annexes the list of specifications and standards which Medino needs to fulfil before they can export that honey.(113-146, B. S2) If the customer is serious and wants outsourced product in jars. They are capable to adjust their production according to preferences of their customers. You need just to give them the jar, sticker and the description how honey should be. (116-118, B, S2) Medino is communicating with Serbian buyers by representing its hallmark "Čuvarkuća" which represents that product is made in Serbian, in this case honey is produced by Serbian beekeepers, processed and tested by Serbian firm Medino, packed and organized by Serbian workers and by buying these bee products, Serbian customers will support domestic industry.(328-332, B, S2) At possible Serbia's joining EU, company similar to Medino will get the status of a company from EU and therefore it will be more likeable to the customers for whom such background is important. On the other side, at the moment Serbia is in tax-free zone regarding the honey, so some countries like Italy when they import Medino's bee products they do not pay tax, like they imported from some other EU country, and since Medno's honey is non-EU the price is lower for the same or higher quality than from the competitors from EU. Additionally, Norway as non-EU country and big market for Medino, does not pay tax for Serbian honey, since they consider Serbia third world country, (for EU honey they pay a tax) and that is the reason why Medino found their strong customer bases with its quality and price ratio. (356-368, B, S2)

Firm infrastructure: Company has had 16 years of development, just after 2 years of development and their important purchase of the packaging machine they made their first export with the help of a mediator in EU. From that moment on, they tried to form their business strategy around the export since the honey they produced had high quality honey which has batter chance for higher profit when it is sold abroad.(11-23, B, S2) Medino did not want to lose their domestic market so they created brand in jars called “Krnjevac med” which was also exported in ex-Yugoslavian countries, next to Medino’s export of honey to EU in the barrels they created the brand in jars which goes under name “Woodland”. Since the quality was the basic driver, they had to invest a lot into high standards, certificates and so on, in order to satisfy request, needs and wants of different EU markets. In order to be able to do so, they modernized their facility, bought machinery and highly efficient and rare laboratory. By such strategy and goals they became a leader in honey industry in Serbia.(28-47, B, S2)

Medino’s started as a company when the development of the holding company Cmana was at high stage and it was ready to invest into new branch of agriculture. Cmana was formed in 1998 and it was founded by today’s owner Stefan’s father Goran, additionally the owners wife Katarina Tirnanić plays an important role as marketing manager, which implicates that all decisions have been made with unanimous approval of all family members that contributed not just to Medino honey Company but to Cmana holding company in general. Of course during this historical process, many professionals and experts have been consulted in order to meet the goals and objectives with inner activities so they can use to the fullest core competence for the purpose of the differentiation strategy that was carried in the best possible way at that moment in time.

Human resources: As we could see from the interviews held for description of the firm Medino, that it was made with 3 different persons, who do 3 different kinds of work. In that way, we can realize how structure is well positioned and organized, since the CEO suggested other spokespersons for the parts of the firm supply chain where his knowledge and professional occupation do not the reach the levels of the colleagues that are assigned for it. That manner shows, a mutual respect and understanding where every worker has its own purpose that helps company to go in the direction of their strategic goals. Medino has a call centre with 3 workers, 2 laboratory experts, 21 workers with 2 warehouse workers and on the top of that department one head production manager Nenad Grujić (S3), one assistant and manager Katarina Tirnanić (S4) in marketing department, as the major spokesperson CEO Ivan Grujić (S2) and finally owner Stefan Tirnanić. it is important to emphasize that is very rare to find so small a firm in human resources term with such big impact on the local market and its market share.

Technological Development: As CEO of Medino mentioned “*investment in the laboratory, quality control of honey raised us above other companies in the same branch in Serbia. That put us on the international market to be on par with all other European companies in terms of honey quality*.”(39-41, B, S2) Mostly all these improvements come as outcome of the need to satisfy certain governmental or EU standards. For example, one regulation “EC 2393/1999” motivated them to by improved instrument in that laboratory which is called “Randox”, and its purpose is with higher sensitivity to allocate pharmaceutical antibiotics in the honey. (85-98, B, S2) Next to Serbian production, hygiene or NO-GMO standards, there are others standards which Medino has to abide by like: BIFC, FFSC 2022 and one of the more demanding is IFS which buyers in Germany asked them to have. With high quality comes high standards, and that is the strategy which they want to show up with at market. (36-47, 175, B, S2) Recently Medino is certified for organic honey which brings them new perspective in terms of the strategy.(57-60, B, S2) They also managed to have HACCAP (188, B, S2), system for temperature of the honey SCADA (201-202, B. S2), traceability (231-232, B, S2).

Procurement: In Medino there are different ways of selling their products, it is divided in the following groups. Honey packed in the barrels and sent to customers all over the EU and the world, as well as the brand prepared in the jars under the name Woodland mostly for supermarkets. In both cases negotiation is organized personally and under contract negotiation, where all important aspects are listed like: type of honey, what bath size, approved packaging materials, hygiene requirements met and laboratory quality control.(115-146, B, S3) For the local Serbian market Medino organized the web shop at their official internet site as well as availability at big supermarket chains .(150-151, B, S2)

Margin: Taking all of the above into consideration, it is hard to find things as the loopholes, setbacks or bottlenecks inside their SC of the company that would lead Medino not to be so much profitable. Fortunately, Medino organized parts of value plate so well, that they managed to be the market leader as a processing company for bee products (mostly honey) in Serbia with small number of workers that are allocated in the right way, with competency and intrinsic irreplaceable knowledge. On top of that, during the last 10 years they have succeed to place themselves as a major exporter with over 53% of total amount of exported honey from Serbia to the EU in one year. Therefore EU markets or Norway in particular represents the markets with big buying power and readiness to pay for Medino’s high quality products with added value. The representation of value plate of Medino could be seen in the Figure 33 down below.

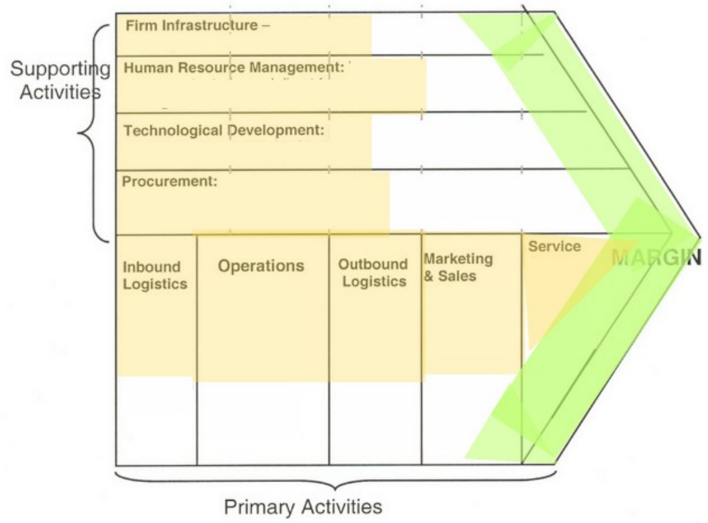

Figure 33: Value Plate of Medino

Sources: The work of the author of this master thesis

On the value plate of Medino which is represented above, has great synchronization of all activities (primary and supportive activities) in comparison with Agro Eko Voće's one that requires improvements in Human Resource Management and Marketing & Sales Activities and therefore possibility to for bigger share in margin is awaited than in comparison with AEV's. Additionally Medino has higher level of differentiation strategy than AEV since they have so many unique products, capacities, markets, buyers. On the other side we have to put in perspective that Medino and AEV are both leaders in their industries, and that they still accomplished a lot, with their organisational capabilities before and during the process of Accession of Serbia to EU, and with all help and restrictions (institutional) that comes along the way.

Porter's Five Forces of Medino

Threat of New Entrants: *Moderate to Low*

- Medino has established significant barriers to entry in the honey industry in Serbia and the EU
- **High Standards and Certifications**: Medino has achieved numerous certification(BIFC, IFS Food, HACCAP, ISO 9000:2008, FSSC 22000) that ensure the quality, safety and traceability of their products. New entrants would need to invest heavily in obtaining similar certifications to compete.
- **Advanced Laboratory and Technology**: The investment in an advanced laboratory for quality control, including instruments like HPLC and Randox, sets a high technological entry barrier.

- **Established Brand and Reputation**: With brands like " Krnjevac" and "Woodland", Medino has built a strong reputation for high-quality honey, which new entrants would find challenging to match.
- **Government and EU Compliance**: Medino complies with extensive Serbian and EU regulations, which can be daunting for new firms to navigate and adhere to. Give a chance to Medino to prepare for Serbian accession to EU.

Bargaining Power of Suppliers: *Moderate*

Medino's differentiation strategy includes a strong relationship with local beekeepers and certified suppliers:

- **Local Beekeeper Network**: Medino has developed a trust- based network with local beekeepers, providing free technological analysis and timely payments, fostering loyalty and reducing the risk of suppliers switching to competitors.
- Certified EU Suppliers: For packaging materials, Medino relies on certified suppliers from the EU, ensuring high-quality inputs. This reliance on a few specialized suppliers gives those suppliers moderate power but also ensures consistent product quality.

Bargaining Power of Buyers: *Moderate to Low*

Medino's emphasis on high quality and certified products reduces the bargaining power of buyers:

- **Product Differentiation**: The high quality and certification of Medino's honey products (including organic variants) allow them to command higher prices and reduce price sensitivity among buyers.
- **Strong Brand Loyalty**: Brands like "Krnjevac" and "Woodland" enjoy strong customer loyalty due to their reputation for quality, making buyers less likely to switch to competitors.
- **Niche Market**: Medino's focus on premium and organic honey appeals to a specific segment of the market that values quality over price, further reducing buyer power.

Threat of Substitute Products: *Moderate to low*

While honey has specific uses that are hard to replace, the threat of substitutes still exists:

- **Alternative Sweeteners**: Products like sugar, agave syrup, and artificial sweeteners could serve as substitutes, but they do not offer the same health benefits and premium quality that Medino's honey does. On top of that Medino push initiative for passing the law regarding product labeling for "honey syrup" and "honey" as the two completely different products.

- **Competitive Honey Brands:** Other high- quality honey brands in the EU and globally can serve as substitutes but Medino's differentiation trough quality and certification mitigates this threat.

Industry Rivalry: *Moderate*

Medino faces competition from both local and international honey producers:

- **Local Competitors**: Medino's comprehensive differentiation strategy(certifications, high standards, advanced technology) places it ahead of local competitors who may struggle to match these attributes.
- **International Competitors**: In the broader EU market, competition is more intense, but Medino's established brands and reputation for quality help maintain its competitive edge.
- Market Share: With over 50% market share in Serbia and a significant presence in the EU, Medino is a dominant player, reducing the impact of rivalry. With every change in the status of Serbia as possible member of EU, Medino is very well prepared since they exporting their products for so many years.

Conclusion:

Medino's commitment to high standards and numerous certifications (IFS Food, BIFC, ISO 9000:2008. FSSC22000) ensure their products meet the high quality and safety standards, differentiating them from competitors. On top of that investment in advanced laboratory equipment (HPLC, Radox) and in-house quality control allows Medino to ensure the purity and authenticity of their honey, adding a layer of trust and quality assurance. That helps brands like " Krnjevac" and " Woodland" to be marketed as premium, high-quality products. Medino uses ALT, BLT, and TTL marketing strategies, participates in international fairs, and has won awards to reinforce their premium positioning. That all would not be able without close relationships with local beekeepers, efficient inbound logistics, and advanced traceability system ensure Medino maintains high-quality standards though the supply chain, creating a unique value proposition. Compliance with stringent Serbian and EU regulations and obtaining various certifications enhance Medino's credibility and allow access to EU and other international markets. On the end offering organic honey and other bee products(Royal Jelly, Pollen, Propolis) as well as custom packing options (barrels, glass jars) for different markets showcases Medino's ability to innovate and meet diverse customer needs. By focusing on these differentiation strategies, Medino has effectively created a strong competitive position in the honey industry, making it difficult for competitors to match their quality, certification and brand reputation.

8.2.1 Findings of the Case Study

A company outline described above was formed with the use of the information held from the interviews of three hierarchically and operationally different spoke persons and data collected from Medino's official website. All possible data required for description (evaluation) of this case study was assessed by the comprehensive questionnaire. The questioner was personally held and presented to Ivan Gavrilović the CEO, Nenad Gavrilović Production manager and Katarina Tirnanić Marketing manager of Medino on Serbian language. The questioner was also translated in English so that the possible bias that could arise from misinterpretations due to different communication languages (Serbian) is minimized. Following, the propositions of the theoretical framework will be investigate and by doing so the possible findings and results of the questionnaire will arise. The major focus will be on the matter that this specific case is example of diversification as a marketing strategy and influence of governmental institutions during the process of Serbian accession to EU.

First Preposition: Accession to EU gives Serbian agricultural companies opportunities (new market, accessibility, funds) to use resourcefully and more planned their value chain which possible leads to higher organizational gain.

The first preposition could be partially supported. In general case of Medino there are two sides of the same coin. At the moment Medino, focuses its product creation mostly on the customers outside Serbia toward EU countries and most of the profit comes from that selling strain. Why, because Serbia as country has tax-free zone for bee products and that is the reason why in financial way Medino has the same status as any other member of EU. Additionally some country like Norway, which is not in EU, acknowledge Serbia as third world country and therefore it lets Serbian honey again without tax to be imported. Again a win-win situation for the firm like Medino. The down side of this relationship, is that without Serbia being an EU member, honey form Serbia (Medino's honey) does not have status of "honey from EU" and that is from some EU customers deal-breaker and they choose 100% EU honey producers. That Medino's status use theirs EU partners since the price of Medino's honey is comparatively lower in comparison of how high value products offer, in the way that they do either outsourcing of inputs for them or as additional mixing part for their honey. It is important also to point out that onetime financial support which Medino got from the Serbian institution, made huge impact on the effectiveness of supply chain and products in general, and similar big EU's projects would do even greater influence since they are much more valuable and constant, so companies like Medino could plan their differentiation strategy accordingly, since it is much more laborious and time consuming.

***Second Preposition**:* The process of the accession of Serbia to the EU forces different parts of the value chain of agricultural companies to adapt, primarily resorting more to the preference of **differentiation strategy**.

The second preposition could be supported. In year 2008 when the first exporting sale was made, Medino's top managers together with owner at the time, decided to dedicate their market strategy and ultimate goal to reach the customers of EU and to configure their products toward their future most profitable customers. And then after 15 long years they managed to do it to a great extent. They managed that since they adopted philosophy and business strategy that the best EU competitors at the time could reach. By observation, they managed to construct their collecting, processing, storing, transportation, laboratory and monitoring processes in such a way that they use, as their marketing manager directly pointed out, the differentiation strategy that leads to product with high added value.

Third Preposition: The problems which are existing in this cohesive structures **(in legal structures- governmental application of the Law**) that they are resulting by slowing the progress towards the less efficient process of adaptation of the value chains and strategy towards what should be.

The third Preposition could be supported. Next to numerous negative cases that happened between governmental bodies/institutions and Medino regarding their jurisdiction, competency and legal misunderstandings the biggest hold back happened to Medino when it was forbidden to place "100% Natural" label on their product without any reasonable explanation that was supported by the official laws and regulations. Such unreasonableness cost Medino lot of revenue since they had to restore already sent products back to their HQ and place new labels on. The second huge negative event occurred, when the new (six months old) totally governmentally unrecognized private laboratory in Serbia accused Medino to sell the honey that is not according to Serbian regulations. That happened to be big story in the media, and negative marketing campaign was directed toward Medino. Medino with the help of their tracing technology managed to find that barrel from which "irregular sample" came, and they hand out that barrel to the government inspection body sent to the most prestigious Austrian laboratory to give objective opinion on that. They proved that this honey was according to the highest EU standards that are mostly accepted by Serbia. This event was 2 months long and Serbian agricultural institution were very slow in inspection to find out who in this event spread false claims, why and to get punished according to the law. In the end Medino could not even place the private lawsuit against the laboratory since it does not have any assets (phantom company). That is one to one example how some companies could be falsely accused and not to be fairly compensated for the negative marketing and for all losses that arose during the whole process, while governmental bodies and institutions did not do their job efficiently and in accordance with all legal tools.

8.3 Moravac

Moravac as the firm was established in 2014 as a part of the holding company Cmana located in village Krnjevo, city of Velika Plana. Cmana at that time had in possession around 50 agricultural pharmacies all around Serbia that have been used as the distribution centers and selling points for their livestock feed brand "Moravac" that was at first outsourced by today's competitor firm "Bečejka". The idea for Moravac came the moment top managers and founder of Cmana holding decided that would good to have control over their feed brand and they can create higher profit on that product since they have all necessary logistics as part of already well organized Cmana's agricultural pharmacies web.

Figure 34: Production Plant of Moravac livestock Feed in Krnjevo

Sources: Official website of Moravac (2023), Available at: http://www.moravac.co.rs/

The whole process was carefully planned and the initial step was that they will produce livestock feed so they can it sell to farmers through their pharmacies. After they got good feedback they established connection with professional agricultural companies which are producing broilers (young chicken) and pigs (pork meet) and they started to supply them with their feed. At that stage Moravac had in total 10 workers (in production and administration department) and capacity of 5 tons per hour. That changed over the course of 2-6 years. (6-25, C, S2) In 2020, there was a shift in their business strategy and even more important the objective, when they decided to open their own farms for broiler and pigs. So their need for good quality, controlled, specialized for their genetic materials (chicken and pigs) feed made them to organize differently. Capacity went up to 20 tons per hour, and diversity of the products increased since they wanted to spread their influence all over the Serbia. The network of agricultural pharmacies also increased up to 88 until 2023. (30-47, C, S2) At the moment Moravac sells around 13 different products through the apothecary network directly to the small farmers (20-30% of their capacity), the rest of capacity is used for selling to professional farms in Serbia and in the region (EU, CEFTA) and the greatest part is used for their own farms. Some of their products: Complete feed mixtures for piglets, complete feed mixtures for poultry, enriched vegetable mixture for final fattening of beef cattle and pigs and so on. In the figure 35 some of the products sold through the Cmana's store network could be seen.

Figure 35: Moravac Livestock Feed in 40, 20 and 10 kg Package

Sources: Official website of CMANA (2023), Available at: http://www.cmana.rs/stocna-hrana/moravac

Next to above presented products, from the primary raw materials in this case corn, barley, wheat and soy that have been arranged from newly established department in Cmana holdings whose job is to organize collection and redirect these raw materials for Moravac as the company, internal sale inside Serbia and external sale to (CEFTA, EU) agricultural stock market. Being presented on stock market and having possibility to trade and do service of supply for other companies in Serbia, Cmana/Moravac in same time earn money by: trading, by selling to other companies, giving the best possible price of raw materials for the Moravac. (101-112, C, S2) Other than this department for "Raw materials", Moravac uses strategic resources like transportation, IT services, accounting services from Cmana and that is one more competitive advantage as good internal structure, since the prices for their services is much lower than it would be in general and immeasurably more reliable when it comes to safety of information, know how, control. (95-99, C, S2) Today's nominal capacity is around 140 000 tons a year and Moravac uses around 45 000-50 000 tons a year, they need to accept a lower margin in order to keep their quality of the products at high level and to have time to find secure and constant partners that would allow them to fulfil 100% of their yearly capacity. At the moment they do not want to decrease the number of workers: 18 in production line, the rest is the laboratory, administration, technologists and Mr.Marko Đurđević. (71-84, C, S2) Supply strategy of corn, barley, wheat and soy for Moravac is very simple, since Moravac has 2 purchasing stations in the form of the factory itself (plus a laboratory for quality control) and next to a mill located only one kilometer away from the factory and headquarters. In the radius of 50km with trucks (rented by Cmana holding) Moravac collects the raw materials from farmers and agricultural companies. Transpiration as the variable cost plays the biggest role in this type of industry and products. The proportion of the amount bought by farmers or agricultural companies depends on many factors: yield of that year, varieties of plant crops, their quantity, position, distance, quality and availability. These are all reasons why Moravac wants to attract farmers to check in laboratory their corn, wheat, soy and afterwards to be purchased and left in silos. (112-122, C, S2) The planning process of how many broilers and pigs they will produce plays also the biggest part in how much and what type or raw material they will buy from farmers or agricultural companies. What makes a huge problem for Moravac is that in the recent years the number of the big producers is lower each year, so transportation costs go up since for 100 tons Moravac will not purchase from 2 suppliers but from 20. Another extremely vital factor that adds to this problematic is that Serbia do not have standardized sort/types of corn, wheat, soy, barley and therefore that makes Moravac significantly harder and costly to organize production of such uniformly product with unique high quality and quantity for all their customers. These customers could be local small farmers for livestock feed bought at agricultural pharmacy, professional agricultural firms which are directly buying livestock feed inside Serbia or outside (CEFT, EU) and the firms who are buying unified quality of raw materials like corn, wheat, soy at stock market. (135-156, C, S2) One of the strategies with how Moravac tried to overcome this issue of unification and consolidation of the raw materials is by making a contract with farmers. At the beginning of the season Moravac secure seeds, fertilizers, pesticides and recommendation from the expects on how to use it, and farmers are obligated to return (sell) the produced raw materials to Moravac at market price in the financial value of that loan and purchase of the things that are needed for production. This model gives both sides many benefits for mutual profitability and efficiency, since farmers receive verified and controlled seeds mixed with right pesticide, that have been tested

for years with larger suppliers, and Moravac gets a the right quality of raw materials. (328-351, C, S2) This model helps spreading advice, technical measures, and know-how all-around Serbia.
At the moment Moravac owns two major certificates HACCAP and ISO 9001.

- HACCP *"is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product".*(Official website of U.S. Food & Drug Administration (2023), "*Hazard Analysis Critical Control Point (HACCP)*")
- ISO 9001 "*is defined as the international standard that specifies requirements for a quality management system (QMS). Organizations use the standard to demonstrate the ability to consistently provide products and services that meet customer and regulatory requirements. It is the most popular standard in the ISO 9000 series and the only standard in the series to which organizations can certify".*(Official website of ASQ (2023), "*What is ISO 9001:2015-Quality management system?*")

These two certificates give possibility to companies in possession to sell their products inside Serbia and neighbouring countries (NON-EU), in case of Moravac CEFTA countries have even lower quality control level than HACCP and ISO 9001 require. With lower quality and lower prices competitors, CEFTA's countries have competitive advantage over Moravac, since Moravac does not want to lower quality they already offer. (54-64, C, S2) On the other side Moravac has other competitive advantage in comparison with CEFTA's members, is that in Serbia GMO plants and animals are forbidden, so by default Moravac offers Non-GMO products to their customers. The next certificate on which Moravac is currently working on is HALAL since the market have been shifted from Ukraine toward other parts of Europe and Moravac had many requests in regards with HALAL certificate. (201-213, C, S2) The second certificate with which Moravac is working on is IFFC. They bought a new machine that helps during process of sterilization in which machine brings nearly instantly high temperature for short period of time. This machine signifies one of the steps that are needed for completion of IFFC certification. (257-281,C, S2)
In order for Moravac to step in EU with their livestock feed as product, it is necessary to implement "GMP+ Standard" that actually represents traceability from the moment raw materials enter Moravac facility, than during the all phases of storing and processing until final distribution and placement on the shelves for the customers. For such standard to be implemented in the first place it is necessary to do specific reorganization of all companies aspects like: educated and experienced workers, inbound logistics, new equipment and technology, IT service on higher level, bigger storage room and so on. The reason for these major changes is because, in every step supply

chain process at every moment Moravac, institution or partner would know where and what stage of modification(processing) is every kilogram of raw material that enter plant facility.(169-196, C, S2) This implementation takes a lot of time, it is very risky since requests from other customers need to be fulfilled in the meantime and requires huge financial support that at this moment could be only expected from the Serbian government or even more from EU agricultural funds that focus on the improvement of production conditions, the possibility of product diversification and overall preparation for competitive challenges that comes to every agricultural company after its country becomes EU member. (275-308, C, S2)

When it comes to relationship between Moravac and Serbian institutions, Moravac realized in many cases that the government (different bodies) do not focus on the optimization of plant types or standardization of production process that should go head to head with EU regulations, but with their regulations focus only on the most extreme and most dangerous parameters in production: mycotoxins, excessive use of pesticides and excessive use of fertilizers. (359-367, C, S2) Further more administration in governmental institutions in Mr. Đurđević's opinion it is unnecessary complicated, slow, inefficient and in many cases not capable to resolve some simple issues. As an example of harmonization of certificates for export of fodder for CEFTA countries, where Serbia started this process long time ago, and should have completed many years ago but it hasn't. Therefore Moravac had a problem with export of the fodder to Montenegro even if they collected and prepared needed documentation. This governmental mistake, cost Moravac lots of money, which was not refunded by the government.(430-447, C, S2) On the other side, Moravac got governmental subsidy worth of 10.000.000 RSD (around 95 000 EUR) and a loan with favorable interest rate from "Fund for the Development of the Republic of Serbia", as the part of project for "Improving production in agriculture". (463-469, C, S2) This financial support Moravac used for the already mentioned machine, which represents one of the components for the development of a production plant with standards that are needed in the European Union. That is one more example what kind of business strategy and intention Moravac has for its future plans, since they know if Serbia becomes a member of EU, they better be prepared for all required standards requested not just by the government but also by the customers. (474-482, C, S2) Entire supply chain is represented in Figure 36 down below.

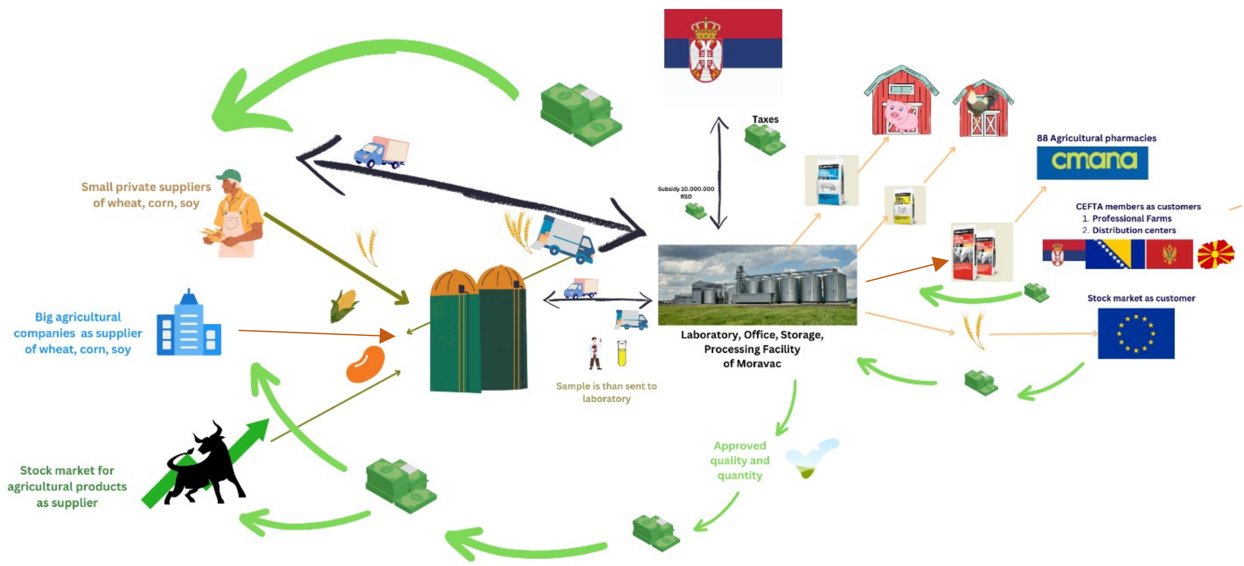

Figure 36: Supply Chain of Moravac Livestock Feed Company

Sources: The work of the author of this master thesis

Value Plate of Moravac

Inbound Logistics: Because they are so concerned about quality, they are trying to provide the best service with his suppliers through the constant education. This type of knowledge sharing was passible at the Cmana farm-stores where they can get all information regarding seeds, fertilizer and chemicals. By doing so, they are trying to create more unique and grouped suppliers in the sense of the same seeds type, quality etc. On top of that, they are willing to offer them contracts formulated in such a way that would give them the type of the loan through seeds, fertilizer and chemicals so that they can grow in the way Moravac wants, and then they would buy up all that wheat, corn etc. from them, at market price that moment. This type of contracts where combined offered inputs in advance for supplier so they can prepare for the season, availability of inputs and experts support all the time and secured buying out, is not offered by any other competitor in Serbia. So that is their competitive advantage. The procurement department as integrated part of Cmana holding which has a big influence on the Moravac through the supply of corn, wheat, soy, their job is to purchase at lower price, since they have its own silos, and use it later in the year when the better conditions can create better economy of scale. In other way around they can buy at smaller price and resell it for the higher one.

Operations: Since Cmana as holding which Moravac is part of, has its stores as core business and afterwards Cmana established farms of broilers and pigs, that new additional condition pushed Moravac to reorganize their business strategy in different ways. Firstly, they needed certain production capacity for fodder in order to satisfy the demand of the buyers at their stores. Through the years they needed to enlarge that capacity and they came up with the idea of having its own farms. By implementing those ideas, they used to combine demands as bases for creation much efficient economy of scale. On top of that, it gave them a better possibility to understand the needs and wants of the frames and to experiment on the benefit of their fodder on its own animals. Therefore they bought a special machine which compresses and makes croquettes with high hygiene level and optimal nutrition. Such level of production is very rare in Serbia so it creates a competitive advantage. Since that food is specially designed (it converts nutrients into meat best) for the genetics of their pig and broilers, so the waste of food and death of animal during production process has been brought to a minimum.

Outbound logistics: Holding Cmana gives such possibility through its farmers stores that all fodder are always available for the smaller buyers, so basically there is no shortage. On the other hand for bigger buyers (professional farms) they can arrange the quality of fodder the way buyer requests it. The procurement department as integrated part of Cmana holding which has a big influence on the Moravac through the corn, wheat and soy supply, their job is to observe the stock market and to purchase raw materials at lower price since they have its own silos and they can create economy of scale if CEO decide to use that amount for production process or as direct profit to sell to other company in Serbia or region.

Marketing and sales: As we have already mentioned Moravac are in some way farmers with broilers and pigs itself. So by trying to improve the fodder for their own needs, they are improving the products for their customers. That is the reason why they are educating farmers in terms of ingredients, hygiene, standards and production stages in creation of their fodder. So during these educational events they are sharing their know-how of their experiments on the farm, and knowledge of their agro-engineers. By doing so, they are creating deeper connection and trust. Finally, the farmers, who are buyers of the seeds, fertilizers etc. for their crops, are becoming the suppliers of wheat, corn and soy for Moravac and for a modern market. Therefore Moravac and Cmana holding in general are some type of the towing vehicle for small and medium farmers, who are willing to sacrifice some of their present resources for the better future and better international markets tomorrow. Moravac at international market differentiates by having products which are “NO-GMO” because it is forbidden in Serbia, with products that are using medicinal-herbs as substitute for different antibiotics in fodder and creation of products that undergoes important stages during production process with the help of modern machinery, that makes products with a lot of added value, since such products are not presented by the competitors.

Service: Company Moravac is giving many services which are not common for its competitors and that is for example having its own man inside farm stores of Cmana holding. That seller at store knows to explain all the benefits of their fodder and to transfer the experience they got from its own Maravac's farms and experiments. So they are getting the know-how of Maravac's engineers from its farms, how to organize one, how this fodder will influence the chickens or pigs meat conversion and so on. (333-341,C, S2) On top of that they are organizing meetings with governmental veterinary and phytosanitary inspectors who are giving advice to the wheat, corn of animal farmers what's the best way to use some standards in order to protect the plants, animals and in the end buyers.(353-359, C, S2) So basically they have the most directed marketing there can be, which other competitor are not able to cope with.

Firm infrastructure: Foundation of this company was created on opportunity to develop backward vertical integration when the holding company Cmana had many farmers' stores all around Serbia. (7-16, C, S2) So basically they started to fill out they own stores with their own products. They did not stop their expansion there. Afterwards they started to supply professional farms.(16-18, C, S2) A crucial moment happened during 2015, 2016 when they increased capacity and quality, as they needed to supply their own farms of broiler and pigs. That capacity changed from 5 tons per hour to 20 tons per hour (38-47, C, S2) Their enlargement did not stop there, so they kept trying to sell their products in CEFTA countries like Montenegro, Bosnia and Hercegovina, Macedonia, Albania. They have the quality which is not cheap but at the same time they do not want waive on that for bigger margin. (50-64, C, S2)

Human resources: Holding company Cmana has its own philosophy regarding the hiring and investment into working force, and that business ethics it transcended to other firms including Moravac. Most of their working force and managers come from the exact village of Krnjevo or neighboring villages that again shows intention on supporting local community by giving them chance to work in the company where they will be accepted, respected and paid well. Many experts and Agricultural Faculty of Novi Sad helped with their knowledge, experience and analysis of the development of these products. Additionally all crucial decisions regarding the business strategy, objectives and future goals are made by the CEOs and owners of Cmana and Moravac.

Technological Development: For the most of its livestock feed products they use one of the most advanced technology-machinery when it comes to efficiency, precision, right measurements, profitability and safety, therefore they already established themselves as the recognizable company at the market. Other than that, they are starting to develop a new sort (diversified form) of the livestock feed that is mixed with natural, bio and medical (healthy) plants which are not part of standard group of crops or similar to. The function of these diversified products should improve general or specific parts of the health inside the pig or broilers in more humane and natural way without synthetic drugs. In their sample of surveyed respondents done by marketing department, they discovered that such future marketing strategy and “early start” of this new sort of the feed, would make it very interesting for the customers and they are willing to buy it and to test on its own farms.

Procurement: We already mentioned a bond which Moravac and Cmana are trying to form between them and small farmers, since they represent 50-90% of their suppliers for all raw materials (different crops) and how on such a bond private farmers would profit. Other than them, Cmana and Moravac have other strains of supply in the form of professional agricultural companies which sell them much more standardized raw materials, since it passed certain quality controls before it was bought by these agricultural companies. But the price is always higher than from the private farmers. Third and final supplier possibility is from the stock market for agricultural products where Moravac and Cmana could import raw materials at every moment and in forms they need.

Margin: At the moment, in this transition process where Moravac is together with Cmanas' support, margins as CEO said is very small since they do not want to step back from the high quality standards they reached until now, for a chance of higher profit. Their marketing strategy is in the long-term form and they are preparing internal structure step by step for the future governmental, international, legal, market and social conditions. In the last 10 years of their existence Moravac grew up to be one of the leaders when it comes to modern production of livestock feed in South-East Europe. For them their goal is to reach companies who are operating inside EU, since the organizational level, standards, technology is significantly higher than the ones outside of EU. Of course it is important to mention the inevitable thing in the form of supports they receive from governments and European agricultural funds, which are far greater and constant than the ones Moravac can expect at the moment from Serbian government.

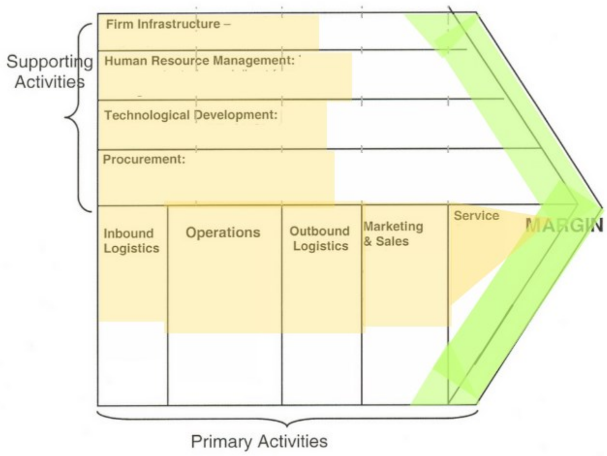

Figure 37: Value Plate of Moravac

Sources: The work of the author of this master thesis

Moravac’s Value plate looks at first view similar to Mednino’s but with well organized activities, which should be not big surprise since they under same holding company (Cmana) and they share not “just” similar business ethics in terms of high quality products and working standards that resonate with market and institutional requirement, but also real parts of activates of value chain like distribution centers, sharing/supporting same customers, and many more. Along that it important again to point out that their (Moravac’s) profit margin is not high as it is for Medino, since they are two different products, with different buyers, markets and they are on two different evolutionary points, since Medino is 10 years older and much more experienced and well established company.

Porter’s Five Forces of Moravac

Threat of New Entrants: *Low to Moderate*

- **Barrier to Entry:** High initial capital investment required for production facilities and quality control systems (e.g. HACCP, ISO 9001)
- **Brand Loyalty:** Established brand recognition through quality products and strong customer relationships.
- **Economies of Scale:** Large production capacity (140,000 tons per year) offers cost advantages.
- **Distribution Network:** Extensive network of 88 agricultural pharmacies across Serbia, providing widespread market access.
- **Technological Requirements:** Advanced machinery and technology for production, creating additional barriers.

Threat of Substitutes: *Low*

- **Product Differentiation:** Unique products tailored for specific genetic materials and customer needs(e.g., specialized feed for broilers and pigs)
- **Quality and Certifications:** High standards maintained through HACCP and ISO 9001 certifications, providing assurance of quality and safety.
- **Non-GMO Advantage:** Products free from GMO’s cater to specific market demands, especially in regions with strict GMO regulations.
- **Ongoing Innovation:** Continuous development of new feed varieties, including those mixed with medicinal herbs for health benefits.

Bargaining Power of Suppliers: *Moderate*

- **Supplier Dependence**: Reliance on local farmers and agricultural companies for raw materials like corn, barley, wheat and soy.

- **Supplier Network**: Wide network of small suppliers, leading to higher transportation and coordination costs.
- **Contracts and Incentives**: Use of contractual agreements providing seeds, fertilizers and pesticides to farmers in exchange for their produce at market prices.
- **Quality Control**: In-house laboratory for quality testing helps mitigate risks associated with variable supplier quality.

Bargaining Power of Buyers: *Moderate to High*

- **Buyer Diversity**: Customer range from small farmers to large professional firms and Moravac's own farms.
- **Product Quality and Differentiation:** High product quality and specific formulations reduce price sensitivity to some extent.
- **Market Reach:** Direct sales through pharmacies and international markets (EU, CEFTA) increase buyer options and potential bargaining power. That is the reason why possible Serbian accession to EU can increase possibility for higher profit.
- **Volume and Dependence:** Large buyers (e.g. Professional farmers) may exert more pressure on pricing and terms.

Industry Rivalry: *Moderate to High*

- **Competitive Landscape:** Presence of strong competitors such as Bečejka and other regional players. But secured sales through its own pharmacies and own farms.
- **Product Range and Innovation:** Differentiation through a wide range of products and ongoing innovation (by mixing healthy plants) is curtail to maintaining a competitive edge.
- **Cost and Quality**: Maintaining high-quality standards while controlling costs to stay competitive.

Conclusion: Moravac's differentiation strategy, focused on high-quality, specialized livestock feed, leverages several competitive advantages such as advanced technology, certifications, and an extensive distribution network. While the threat of new entrants and substitutes remains low, the bargaining power of suppliers and buyers, along with industry rivalry, poses moderate challenges. Moravac's strategic efforts in innovation, quality control and supplier management are critical for sustaining its market position.

8.3.1 Findings of the Case Study

A company outline described above was formed with the use of the information held from the interview with Moravac's CEO Mr. Marko Đurđević and data collected from Moravac's and

Cmana's official websites. All possible data required for description (evaluation) of this case study was assessed by the comprehensive questionnaire. The questioner was personally held and presented to Moravac's CEO Mr. Marko Đurđević in the Serbian language. The questionnaire was also translated into English so that the possible bias that could arise from misinterpretations due to different communication languages (Serbian) is minimized. Following, the propositions of the theoretical framework will be to investigate and by doing so the possible findings and results of the questionnaire will arise. The major focus will be on the matter that this specific case is example of diversification as a marketing strategy and influence of governmental institutions during the process of Serbian accession to EU.

First Proposition: Accession to EU gives Serbian agricultural companies opportunities (new market, accessibility, funds) to use resourcefully and more planned their value chain which possible leads to higher organizational gain.
The first proposition could be supported. In case of Moravac, when they exported soy oil to Cyprus, their partner did not ask for the special permissions which would normally be requested by other EU countries in Serbian neighborhood like Croatia, Hungary and Bulgaria but still they managed to satisfy the level of quality, standards, and professionalism with the standards which Moravac now possesses. (173-179, C, S2) On the other side, support which they would get from EU institutions in terms of knowledge sharing, standards empowering, financial subsidies would be drastically helpful for Moravac's value chain, since Moravac emulates European companies from the same industry. They use every chance to gather new information, partners and certificates (standards) that will allow them to reach the higher level product development and higher profitability. Usage of financial subsidies to buy technology that will allow them to create the unique product that would firstly be more efficiently used inside their farms and then sold to the customers at value they appriciate. Finally, EU's customers value non-GMO products and they would pay even more for these ones who are produced under EU regulations and the diesel fuel (transportation costs) as the crucial variable cost is much cheaper inside EU zone than in Serbia.

Second Proposition*:* The process of the accession of Serbia to the EU forces different parts of the value chain of agricultural companies to adapt, primarily resorting more to the preference of **differentiation strategy**.
The second proposition could be supported. For Moravac in order to be continuously competitive for longer period time not just at Serbian and CEFTA's market but also at future EU market, it needs uninterruptedly to strengthen and to modify its different parts of value chain so it can reach

potential of uniqueness of its products and general strategy. Moravac with all its resources (Human resources, organizational, managerial, assets, financial) is trying to evolve into a better version which for them would be similar to companies that use differentiation strategy. Examples are: 1. Special type of contract that supports their suppliers (small farmers) with the knowledge, trends, inputs, seeds in order to create more unified and secure supplier network; 2. Development of new products (with help of Agricultural Faculty of Novi Sad) that contain medicinal-herbs as substitute for different antibiotics in fodder, since the EU pass the law on forbidding usage of many antibiotics and procedure in animal husbandry.

Third Preposition: The problems which are existing in this cohesive structures **(in legal structures- governmental application of the Law**) that they are resulting by slowing the progress towards the less efficient process of adaptation of the value chains and strategy towards what should be.
Third proposition could be supported. It is true that government helped with subsidies Moravac that eventually improved up to a certain level functioning of supply chain but on the other side the general environment that is under total control of Serbian institutions and their enforcement of the law, organisation and legalisations does not function very well. Moravac CEO mentioned that administrational, jurisdictional and operational processes of governmental bodies/institutions are very inefficient and therefore unprofessional, resulting in the difficulties for all subjects that interact under these conditions. Good example for it is CEFT Agreement that was signed in 2006 and still does not work properly since Serbian bodies do not apply these agreed conditions, until this day.

9 Results

Table 18: Results of Findings

	AEV	**Medino**	**Moravac**
Preposition I	Supported	Partially supported	Supported
Preposition II	Supported	Supported	Supported
Preposition III	Supported	Supported	Supported

Sources: The work of the author of this master thesis

10 Discussions and Conclusions

This section will provide recapitulation of the research part and discussion on the same topics. In this paper we analysed three different companies which operate in three different branches of agriculture.

First Agro Eko Voće (AEV), which represents two sides of agricultural production subject as a producer of primary products (raspberries, strawberries) and as a legal entity (cooperation-company) that processes and produces final products. Raspberry production in Serbia represents one of the greatest pride items of Serbian agriculture, since couple of years ago Serbia was the biggest producer of raspberries in the world with one of the best sorts, which exactly comes from the region where AEV is major contributor. AEV has the structure of a cooperative, where co-operators are at the same time suppliers, stakeholders and partners. Some of their products have been sold over the borders of Serbia with support of middleman whereas others have been sold as a products with added value to the premium hotels and restaurants. Two point of views can shine the light on aspects of Serbian agriculture that would not be acknowledged, they would be seen from just of perspective of the company, and that is the reason why their voice should be with more attention examined and taken into consideration.

The second company is Medino, which represents honey industry as leader in their branch since the 53% of total exported honey from Serbia is done by Medino. Medino has two premium brands (that passed the highest form of standards and controls), the first "Woodland" brand used as exporting brand for neighbouring countries, EU and world, and second "Krnjevac" as the honey sold inside Serbia. The biggest part of their income comes from selling honey as raw material for other EU/World brands, transported in big quantities in the barrels. Medino is a part of holding company called Cmana that helps Medino in organization of certain supply chain parts. Honey industry is well organized since the legalisation is almost completely synchronized with EU standards, and addition to that Serbian honey companies could sell their honey to the members of EU with zero tax, where on the other side uses benefits of not being member of EU by the exporting countries like Norway.

Third company is Moravac that is also part of holding company Cmana, but in comparison with Medino it uses much more resources and it is more depended upon. The main reasons for that is because Moravac uses Cmana's agricultural pharmacies as selling stations for livestock feed, their transportation vehicles, IT services and more. Their main products are livestock feed in sacks and the raw materials in form of crops sold on stock market and to CEFTA's members.

After we briefly described each company we can analyse all possible connections and relations that can lead to better understanding of situation and giving the best approvals for findings of propositions and answers for research questions. So all three companies are based in the regions relatively close to the raw materials and suppliers that are crucial for the making of their products. All three of them are small-size businesses since they have less than 100 workers (AEV 6, Medino 22, Moravac 28). All companies' supply of raw materials comes from Serbian supplier of which they are extremely proud and use that as the competitive advantage (AEV - Indications of geographical origin, Medino- Čuvarkuća, Moravac- Non GMO). All companies are trying to prove the most valuable high quality product with the capacities, connection, resources, finances and knowledge they possess, some companies use their competitive advantages very well some do not, the question is why? When it comes to findings of first proposition could be completely supported AEV and Moravac, where for Medino only partially (in next two propositions findings support it for all three companies). Firstly, main reason for that is because for Medino's product (honey) there is not import tax for EU member states, where AEV and Moravac if they somehow sell their products to EU over middleman or by itself, a tax must be paid. On the other side, AVE, Moravac and Medino use all benefits of non-EU member, like third world country and zero tax with Russia and China (Medino uses that as explained in the case of exporting honey to Norway). That is the main reason why for Medino, accession to EU would drastically influence their selling strategy. Since they would lose the lower prices tags as their competitive advantage combined with high quality of their products. Of course on the opposite side, Medino would get a status of producer from EU member and that would open significant portion of the market that see it as sign of high quality product. AEV and Moravac would get the same product status, and for them that would be a huge benefit since for Moravac is limited with cost of transportations to just few EU members (Bulgaria, Croatia, Slovenia) to whom now they cannot export and AEV would be able to spread their premium and high value added products across EU where buying power and demand for such products is much higher. All three companies agreed that EU funds, which they would get, extremely impact the development of their production process in terms of efficiency of value chain. As a result they would be able to reach the certificates, standards, working flow and control to a higher level, EU level. As an example of their beliefs, and business strategy that focuses on EU as eventual market place, all three companies used their financial support (grants, soft loans) for buying modern machines, furnishing of storage rooms, buying protection systems and buying seeding material which was the case of AEV since they are also producers/suppliers/farmers. They know with every improvement they make, it will create a competitive advantage at Serbian market and transition to EU market much smoother. As a logical sequence of events, there would be more premium products with lower production costs and higher price tag that would lead to higher profit. Findings for second proposition would somehow be additional proof of the first one. All three companies did certain steps exactly in their value chains that would ultimately lead them (Moravac) or already did (AEV, Medino) lead their production systems and also products to differentiation strategy. AEV found out by observing trends in EU, that structure of company can group private farmers and form them into one big legal person (company) that will operate on their behalf and generate the better working/negotiation/selling/supplying conditions than they would have if they do as single farmers. Together they managed to finance many certificates needed for development of their premium products and future export. Medino saw that chance just years after establishing a company and that gave them enough time, step by step, to reach the position of the leader at honey market in Serbia. Again, laboratory equipment bought by the grant given by Serbian government made, huge distinction when it comes to capabilities and differentiation of the products. Of course, back to expansion road, Medino had great sustenance form Cmana holding company. The same story happened to Moravac in terms of the help from Cmana, but it did not reach the level of Medino, since the investments for this breach of industry (livestock feed) are huge in order to make simple adjustment. Example could be seen in the purchase of a machine that leads to modification of the products in the last processing stage that leads to more unique, hard to copy, easily adaptable value added product.

Finally there is a need to see it in a broader picture, where the influence of Serbia as a market, socio-economic environment and governmental/institutional-legal place should be taken into consideration as the major variable since that is in the main focus of the findings of the third preposition. According to John E. Gable (2016), PESTEL analysis is a good tool for companies to distinguish reality that surrounding them with "relevant factors" in macro environment: "political factors, economic conditions in the firm's general environment, sociocultural forces, technological factors, environmental forces and legal/regulatory factors".(p.38) So it would be good to give a brief description of current situation in Serbia and its agricultural industry. Serbia has long history as country that lived on the land and from the land. Its every farmer or rural citizen has deep connection with its village and his arable land. Unfortunately condition of Serbian agriculture and their farmers need urgent help if we take into consideration that. In the rural parts of Serbia predominantly old population lives (54% older than 45), which 57% of them have formal type education. Income of Serbian farmers are 30% less than the smallest income in EU-27, or 6 times lower than average income in EU-27. If we look the examples of the countries that are similar to some extent to Serbia will face around 20% of decline in agricultural labour in the first few years after it becomes a member state, even though if that trend started long time ago. The prices of the raw materials got drastically high (on average 17% higher, energy 10%, fertilizers 44,2%, animal feed 28,3%) and governmental direct subsidies did not adjust accordingly. European Union for Accession period through the IPARD and other project allocate a lot of money but just 8,3% has been used for Measure 1 and 17, 2% for Measure 3. When you put into perspective of number of projects targeted and approved by Serbian IPARD Agency (in period from 2014-2019) target for Measure 1 was 720 projects, and for Measure 3 was 430 project, but just 191 project for Measure 1 was realized and 26 for Measure 1, (see table 17). Now when we start from perspective of AEV that is on one side a producer (singular farmer) and on the other side a company, good words from AEV's CEO could not be heard. He said that governmental should first help small farmers with subsidies similar the one EU farmers get, since EU allocated enough money for doing that. This subsidies should focus on blue diesel, planting material, fertilizers, mechanization, protection and subsidy for every hectare of arable land, every livestock or kilogram of raspberries produced, like EU does for their own farmers. When it comes to the company side, they should approve financial support, for processing and storing facilities with proper educational help. On the other side he said that current institutional bodies do not do anything regarding the promotion of all good and successful companies equally but they give attention toward just a few of those that are close to the ruling political party, which he finds very unethical and unprofessional, since many of them pay the taxes. Additionally raspberries as the agricultural food (fruit) has one of the biggest exporting significance for Serbian agriculture, and even with that status, major producers like AEV with additional premium products do not have proper recognition and support that they deserve. This entire part of fruit production is left at the mercy of export intermediaries and owners of freezing stores who dictate the price of raspberries while the Serbian bodies have been doing nothing about it for almost two decades. Medino's CEO has also no great words about Serbian governmental bodies/institutions regarding their jurisdiction, competency and legal misunderstandings, since they have many small cases where they have been left without any answer and in two cases where they had big losses in revenue. Such behaving from Serbian government does not allow Serbian agricultural companies to develop their business and market strategy since they do not have any kind of legal of educational support along the way of market growth. Finally, Moravac as the company proves both points of view and all remarks which AEV and Medino had in their interviews.

In the end, it comes to the conclusion that environments (social, economic, Institutional) in which Serbian agricultural companies work and create is not easy at all. For some companies external conditions are easy to handle like in the case of Medino, since they developed themselves according to standards of EU, and major market place is outside of Serbia, therefore they do not have such big pressure in comparison to AEV that totally depends on governmental support, and future moves regarding the importance of middleman and owners of cooling stores. Furthermore synchronization of laws, hygiene, operational and quality standards in Moravac's branch did not reach the level like in honey industry.

With this all presented stages of this paper reader could concluded that the goal of answering on research question has been completely managed by giving detailed and meaningfully description and explanations.

11 Limitations

During the writing process, there were many restrictions regarding the COVID-19, so interviews needed to be arranged in special meeting rooms under special conditions. Additionally it was hard to visit all necessary processing stages of all 3 companies because all three companies were producing some type of food and it was forbidden to enter in some zones without appropriate approval by factories and government authorities. Size of the sample might be limitation but the author tried to be detailed and as objective as possible during the whole writing process. Generalizations are hardly possible with this type of the methodology, and usually generalization are more suitable to the quantitative research where you have tens or hundreds of observations. But still in my in case I can have some explorative and some valuable results for upcoming researchers. This kind of thematic consists of different management forms combined with industry and region which is not in the focus since it does not represent major player in that field. So official governmental information was not easy to find since some of it was not in the digital form.

12 Implications

This master thesis should give theoretical and practical implications for the ones who are willing to go in different direction much more detailed and this thesis could be used as the basis for resources or way of thinking toward different topics regarding Serbian agriculture, market and business strategy, Serbian accession to EU and much more. On the other side this work could help in practical way for different governmental bodies like Ministry of agriculture of Serbia, different inspection and on the other side of spectrum EU's Decision-Making Authority responsible for agriculture and resource allocation. This paper would give short summery of official data of Serbia and its agriculture and the business life of three different companies with 3 different development stages and dependencies on EU markets. After writing this paper, author could understand much better passion of agricultural companies that strive toward the higher EU standards and markets, and what kind of obstacles they need to overcome in order to reach customers at local and foreign markets. One of the necessary paths for doing that is for sure focusing on your capabilities, resources and try to make as unique and high value product as you can.

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14 Appendix

Table 19: Interview guide

	Question/Input	Translation
A. Opening questions	1. When was your company founded?	Kada je osnovana Vaša firma?
B. Short history of the company	2. What were your initial products / number of employees / location of the representation / initial market for products – local or international market?	Koji su bili početni proizvodi /broj zaposlenih /lokacija predstavništva firme /namena proizvoda – domaće ili strano tržište?
C. Evolution and Milestones	3. What moments would you like to point out as crucial? 4. Was that perhaps – increasing staff / new markets EU or CEFTA / Modernization/ New national legal framework / standards / products/ business strategy?	Koji su glavni momenti u razvijanju firme? Da li je to možda zapošljavanje ljudi /otvaranje novih tržišta kao što su EU ili CEFTA/ Modernizacija/ usvajanje novih nacionalnih pravnih okvira / novih standard / nova strategija poslovanja?
D. Structure and SCM of the company	5. What does your production consist of? 6. What are your production capacities? 7. What is the current number of employees? 8. How many different products do you sell? 9. What sectors are a part of your production process 10. How was for your company the accommodation to the new legal framework 11. Were these legal standards national or EU level 12. Can you mention any?	Kakva je Vaša struktura proizvodnje? Koliki su kapaciteti proizvodnje? Koliki je trenutni broj zaposlenih? Koliko različitih proizvoda prodajete? Koje sve sektore imate u okviru Vaše proizvodnje Kako je tekao process prilagođavanja novom pravnom okviru Da li su to bili nacionalni standardi ili na nivou EU Možete li da navedete neki?
E. Harmonization of the legal framework and adaptation to rules	13. How did the process of adhering to standards influence the strategy of your company and business model? 14. In which way have you improved certain aspects of the production 15. How did it influence other aspects?	Kako je proces ispunjavanja propisanih zakona/zahtevanih standard uticalo na strategiju firme i naćin poslovanja Na koje ste načine prilagođavali određene segmente u Vašoj firmi duž proizvodnog procesa? Kako je uticalo na ostale procese?
F. Outcomes of the harmonization of the practice	16. In which way has the development of different institutional demands influence the final products / national and international market?	Kako su te razvojne promene različitih institucionalnih zahteva uticale na same finalne proizvode /domaće evropsko tržište?

G. Evaluation of the process of gathering information related to institutional processes	17. What were the issue your company faced while fulfilling institutional demands? 18. Was it, for example, lack of understanding of demands/lack of qualification of employees, unavailability of information, lack of harmonization of legal framework between Serbia and EU?	Koji su problemi sa kojima ste se suočavali u sprovođenju institucionalnih zahteva? Da li je to na primer nerazumevanje zahteva, nestručnost, nedostupnost informacija, neusklađenost propisa između Srbije i Evropske unije?
H. Financial assistance	19. Are you a beneficiary of national or European assistance – subsidies, direct payments, credit? 20. In which way have the subsidies influence the business development?	Da li ste korisnik nacionalne ili evropske pomoći – subvencije, direktna plaćanja, krediti sa povoljnim kamatnim stopama ili regres?
I. Evaluation of the role of the subsidies	21. In which way has the financial assistance helped developing the production – increased capacity, savings, developing new products? 22. In which way has the assistance national or European influence the change of strategy of your company?	U kojoj meri Vam je pomoć. Nacionalna ili evrppska pomogla u razvijanju Vašeg poslovanja – povećanje kapaciteta proizvodnje. Ušteda novca, povećanje marže? U kojoj meri Vam je korišćena pomoć nacionalna ili evropska uticala na promenu strategije Vaše firme?
J. Understanding the core competence and competitive strategy	23. What makes your products stand out in comparison to your competitors?	Koje su to Vaše prednosti koje Vas pozitivno izvajaju u očima kupaca u odnosu na konkurenciju?
K. Future possibilities	24. What are your expectations of future business development with the Serbian accession to the EU? 25. Do you expect better accessibility of the funds or EU in general?	Koja su Vaša očekivanja za mogućnosti razvoja poslovanj sa eventualnim ulaskom Srbije u Evropsku uniju? Očekujete li bolji pristu evropskim fondovima za razvoj poljoprivrede, EU uopšte?

Sources: Created by Author of this master thesis

Table 20: Types of incentives in agriculture and rural development in 2021

	Name of Measure	Amount per measurement unit
I	**DIRECT PAYMENTS**	
1.	**Premiums**	
1.1	Premium for milk	10 RSD/*l*
2.	**Incentives for production**	4000 RSD/ha
2.1	Basic incentives for plant production	
2.2	Incentives in animal husbandry	
2.2.1	Incentives for quality breeding dairy cows	25000 RSD/head
2.2.2	Incentives for quality breeding fattening cows and bulls	40 000 RSD/head
2.2.3	Incentives for quality breeding sows and boars	15000 RSD/head
2.2.4	Incentives for quality breeding sheep and rams, goats and goats	7000 RSD/head
2.2.5	Incentives for quality carp breeding queens	500 RSD/head
2.2.6	Incentives for quality breeding queens of trout fish	300 RSD/head
2.2.7	Incentives for heavy-type parent hens	60 RSD/head
2.2.8	Incentives for light type parent chickens	100 RSD/head
2.2.9	Incentives for parents turkeys	300 RSD/head
2.2.10	Incentives for lactating cows	40 000 RSD/head
2.2.11	Incentives for beef cattle fattening	15 000 RSD/head
2.2.12	Incentives for fattening lambs	2000 RSD/head
2.2.13	Incentives for fattening kid	2000 RSD/head
2.2.14	Pig fattening incentives	1000 RSD/head
2.2.15	Incentives for bee hives	800 RSD/hives
2.2.16	Incentives for the production of edible fish	10 RSD/kg of fish
2.2.17	Incentives for cows to raise calves for fattening	20 000 RSD/head
3.	**Regressions**	
3.3	Recourse for storage costs in public warehouses	40%
II	**INCENTIVES FOR RURAL DEVELOPMENT MEASURES**	
1.	**Incentives for improving competitiveness**	
1.1	Investments in physical assets of agricultural holdings	
1.1.1	Encouraging the establishment of new perennial plantings of fruit trees, vines and hops	
1.1.1.1	Encouraging the establishment of new perennial fruit tree and hop plantations	50-65%
1.1.1.2	Encouraging the establishment of new perennial vine plantings	60%
1.1.2	Support for the improvement of primary agricultural production	
1.1.2.1	Support for investments in the acquisition of new machines and equipment for the improvement of primary plant agricultural production	50-65%
1.1.2.2	Support for investments in the acquisition of new machines and equipment for the improvement of primary livestock agricultural production	50-65%
1.1.2.3	Support for investments for the acquisition of new machines and equipment to improve the digitization of livestock and agricultural production	60%
1.1.2.4	Support for investments in the acquisition of quality breeding cows for the improvement of primary livestock agricultural production	50-65%
1.1.2.5	Support for investments in the construction and equipping of facilities	50-65%
1.1.2.6	Support for investments in the purchase of new tractors	50-65%
1.1.2.7	Investment support for field electrification	90%
1.2	Investments in the processing and marketing of agricultural and food products and fishery products	
1.2.1	Support for improving the quality of wine, brandy and agricultural food products	50-65%
1.2.2	Control stamps for agricultural and food products and stamp records for wine	50-65%
1.2.3	Achieving quality standards through support for improving the quality of wine and brandy	50-65%

1.2.4	Procurement of equipment in the meat, milk and beer sector	50-65%
1.2.5	Construction of facilities and procurement of equipment in the wine production sector	60%
1.2.6	Construction of facilities and procurement of equipment in the sector of the production of strong alcoholic beverages	60%
1.3	Risk management (Recourse for insurance premium for crops, fruits, perennials, nurseries and animals)	40-45% 70% for five districts
2.	**Incentives for the preservation and improvement of the environment and natural resources**	
2.1	Organic production	
2.1.1	Organic plant production	550%
2.1.2	Organic livestock production	40%
2.2	Preservation of plant and animal genetic resources	
2.2.1	Conservation of plant genetic resources	100%
2.2.2	Conservation of animal genetic resources	Per unit
2.2.3	Preservation of animal genetic resources in the gene bank	100%
3.	**Incentives for diversification of income and improvement of quality of life in rural areas**	
3.1	Improvement of economic activities in the countryside through support for non-agricultural activities	50-65%
3.2	Support for young people in rural areas	75%
3.3	Implementation of activities aimed at increasing competitiveness in terms of adding value through processing, as well as for the introduction and certification of food quality systems, organic products and products with geographical origin on farms	
3.3.1	Introduction and certification of the food quality system, organic products and products with geographical origin designation	50-65%
3.3.2	Diversification of economic activities through support for investments in processing and marketing on the farm	50-65%
3.4	Investments in rural infrastructure	100%
4.	**Incentives for the preparation and implementation of local rural development strategies**	
4.1	Preparation of local rural development strategies	100%
4.2	Implementation of local rural development strategies	100%
5.	**Incentives for the improvement of the system of creation and transfer of knowledge**	
5.1	Development of technical-technological, applied, developmental and innovative projects in agriculture and rural development	100%
5.2	Support in providing advice and information to agricultural producers, associations, cooperatives and other legal entities in agriculture	100%
III	**SPECIAL INCENTIVES**	
1.	Incentives for the implementation of breeding programs, in order to achieve breeding goals in animal husbandry - selection measures	
2.	Incentives for promotional activities in agriculture and rural development (measures and actions in agriculture)	
3.	Incentives for the production of planting material and certification and clonal selection	
IV	**IPARD**	
	Measure 1: Investments in physical assets of agricultural holdings	
	Measure 3: Investments in physical assets concerning the processing and marketing of agricultural and fishery products	
	Measure 7: Farm Diversification and business development, and	
V	**CREDIT SUPPORT**	

Sources: (MAFWM, The Report About the Situation in Agriculture in the Republic of Serbia in the Year 2021, 2022, pp.52-54) (Jevtić, M. & Terzić, T. 2022, p.52-54)

Table 21: Implementation of Realized Subsidies in Serbian Agriculture in 2021 and Unsettled Obligations in Million RSD and number of realized projects/requests.

	Name of Measure	Realized funds (Million RSD)	Percentage compare to total of realized funds (%)	Number of realized projects/ requests
I	**DIRECT PAYMENTS**	31 171	**100% basis**	139 141 (100%)
	Unsettled obligations from previous years	8 001	**25,66%**	**55 979** (40,23%)
	Regular duties in 2021	23 170	**74,34%**	**83 162** (59,77%)
1.	**Premiums**		**20,42%**	
1.1	Premium for milk	6 366	6 366 / 31 171= 20,42%	2 476
2.	**Incentives for production**		21,17 + 53,94= **75,11%**	
2.1	Basic incentives for plant production	6 602	21,17%	12
2.2	Incentives in animal husbandry	16 816,7	53,94 %	
2.2.1	Incentives for quality breeding dairy cows	3 634	11,65%	28 397
2.2.2	Incentives for quality breeding fattening cows and bulls	54		
2.2.3	Incentives for quality breeding sows and boars	259	0,83%	928
2.2.4	Incentives for quality breeding sheep and rams, goats and goats	1 829	5,86%	8 917
2.2.5	Incentives for quality carp breeding queens	0		
2.2.6	Incentives for quality breeding queens of trout fish	0		
2.2.7	Incentives for heavy-type parent hens	4		
2.2.8	Incentives for light type parent chickens	5,3		
2.2.9	Incentives for parents turkeys	0		
2.2.10	Incentives for lactating cows	31,9	0,1%	36
2.2.11	Incentives for beef cattle fattening	1 807	5,79%	11 539
2.2.12	Incentives for fattening lambs	373		4 069
2.2.13	Incentives for fattening kid	0,5		
2.2.14	Pig fattening incentives	1 017	**3,26%**	7 952
2.2.15	Incentives for bee hives	600	**1,92%**	10 528
2.2.16	Incentives for the production of edible fish	0		
2.2.17	Incentives for cows to raise calves for fattening	600	1,92%	8 206
3.	**Regressions**			
3.3	Recourse for storage costs in public warehouses	0		
II	**INCENTIVES FOR RURAL DEVELOPMENT MEASURES**	**6 854,9**	100% basis	**8 101** **(100%)**
	Unsettled obligations from previous years	**3 779,5**	55,13%	**6 677** **(82,42%)**
	Regular duties in 2021	**3 075,3**	44,86%	**1 424** **(17,58%)**
1.	**Incentives for improving competitiveness**	**1 851,2**	1 851,2 / 3 075,3 = **60,19%**	
1.1	Investments in physical assets of agricultural holdings	324	10,5%	
1.1.1	Encouraging the establishment of new perennial plantings of fruit trees, vines and hops			

1.1.1.1	Encouraging the establishment of new perennial fruit tree and hop plantations	267	8,6%	434
1.1.1.2	Encouraging the establishment of new perennial vine plantings			
1.1.2	Support for the improvement of primary agricultural production			
1.1.2.1	Support for investments in the acquisition of new machines and equipment for the improvement of primary plant agricultural production			
1.1.2.2	Support for investments in the acquisition of new machines and equipment for the improvement of primary livestock agricultural production			
1.1.2.3	Support for investments for the acquisition of new machines and equipment to improve the digitization of livestock and agricultural production			
1.1.2.4	Support for investments in the acquisition of quality breeding cows for the improvement of primary livestock agricultural production	69.9		
1.1.2.5	Support for investments in the construction and equipping of facilities			
1.1.2.6	Support for investments in the purchase of new tractors			
1.1.2.7	Investment support for field electrification	0		
1.2	Investments in the processing and marketing of agricultural and food products and fishery products	19,8	0,61%	9
1.2.1	Support for improving the quality of wine, brandy and agricultural food products	0,187		5
1.2.2	Control stamps for agricultural and food products and stamp records for wine	0		
1.2.3	Achieving quality standards through support for improving the quality of wine and brandy			
1.2.4	Procurement of equipment in the meat, milk and beer sector			
1.2.5	Construction of facilities and procurement of equipment in the wine production sector	0		
1.2.6	Construction of facilities and procurement of equipment in the sector of the production of strong alcoholic beverages			
1.3	Risk management (Recourse for **insurance** premium for crops, fruits, perennials, nurseries and animals)	1 507,4	49%	4
2.	**Incentives for the preservation and improvement of the environment and natural resources**	**261**	**8,4%**	
2.1	Organic production			
2.1.1	Organic plant production	94,7		3
2.1.2	Organic livestock production	139,9	4,6	432
2.2	Preservation of plant and animal genetic resources	13, 2		18
2.2.1	Conservation of plant genetic resources	0,4		3
2.2.2	Conservation of animal genetic resources	12,8		4

2.2.3	Preservation of animal genetic resources in the gene bank			
3.	**Incentives for diversification of income and improvement of quality of life in rural areas**	**258,37**	8,4%	
3.1	Improvement of economic activities in the countryside through support for non-agricultural activities	0,37		1
3.2	Support for young people in rural areas			
3.3	Implementation of activities aimed at increasing competitiveness in terms of adding value through processing, as well as for the introduction and certification of food quality systems, organic products and products with geographical origin on farms	29,8	0,96%	
3.3.1	Introduction and certification of the food quality system, organic products and products with geographical origin designation	9,9	0,31%	147
3.3.2	Diversification of economic activities through support for investments in processing and marketing on the farm			
3.4	Investments in rural infrastructure	218,2	7,09%	18
4.	**Incentives for the preparation and implementation of local rural development strategies**	**0**	**0%**	
4.1	Preparation of local rural development strategies			
4.2	Implementation of local rural development strategies			
5.	**Incentives for the improvement of the system of creation and transfer of knowledge**	**734,3**	**23,87%**	
5.1	Development of technical-technological, applied, developmental and innovative projects in agriculture and rural development	195,2	6,3%	62
5.2	Support in providing advice and information to agricultural producers, associations, cooperatives and other legal entities in agriculture	539,1	17,52%	114
III	**SPECIAL INCENTIVES**	**248,05**	**100% (basis)**	**719**
	Unsettled obligations from previous years	**26,4**	**10,64 %**	**55** **(7,6%)**
	Regular duties in 2021	**221,6**	**89,36 %**	**664** **(92,4%)**
1.	Incentives for the implementation of breeding programs, in order to achieve breeding goals in animal husbandry - selection measures	144,7	65,29%	535
2.	Incentives for promotional activities in agriculture and rural development (measures and actions in agriculture)	1,9	0,85%	4
3.	Incentives for the production of planting material and certification and clonal selection	74,8	33,75%	125
IV	**IPARD**	**1 898,96**		**293**
	Unsettled obligations from previous years			
	Regular duties in 2021	**1898,96**		**293**

	Measure 1: Investments in physical assets of agricultural holdings	1 400,7		279 (93,17%)
	Measure 3: Investments in physical assets concerning the processing and marketing of agricultural and fishery products	489,2		14 (6,83%)
	Measure 7: Farm Diversification and business development, and	0		0
V	**CREDIT SUPPORT**	**451,6**	**100% basis**	**183**
	Unsettled obligations from previous years	**26,2**	**5,8%**	**77** **(42,07%)**
	Regular duties in 2021	**425,3**	**94,2%**	**106** **(57,93%)**
	Subsidy part of the interest rate	343,9	343,9/ 425,3= 80,86%	74
	The insurance premium	81,3	19,14%	32
	Total realization of subsidies for 2021.	**40 624,51**	**100% of all measures**	**148 437**

Sources: Official website of Directorate for Agrarian Payments (28.11.2022) "*Implementation of the budget – 2021*", Available at: https://uap.gov.rs/wp-content/uploads/2022/11/realizacija-subvencija-u-poljoprivredi-u-2021.-godini.pdf

Table 22: Timing and Goals of IPARD Measures until year 2020

Name of Measure	Description of Public Calls
Measure 1 (2017-2020)	- "The First call for investments in physical assets of agricultural holdings for the purchase of new equipment, machinery and mechanization was published on 25th December 2017 and closed on 26th February 2018." - "The Second call for investments in physical assets of agricultural holdings for the purchase of a new tractor was published on 4th January and closed on 26th February 2018." - "The Third call for investments in physical assets of agricultural holdings for the construction and equipment of facilities and the purchase of new equipment, machinery and machinery (without tractors) was published on 22nd October 2018 and closed on 9th January 2019." - "The Fourth call for investments in physical assets of agricultural holdings for the purchase of a new tractor was published on 24th September and closed on 25th November 2019." - "The Fifth call related to investments in physical assets of agricultural holdings for the construction and procurement of new equipment, machinery and mechanization (without tractors) was published on 24th September and closed on 23rd December 2019."(pp.27-28)

Measure 3 (2018-2020)	- "The First call for investments in physical assets related to the processing and marketing of agricultural and fishery products for the purchase of new equipment, was published on 27th March and closed on 28th May 2018." - "The Second call within this measure for investments in construction and procurement of new equipment was published on 18th December 2018 and closed on 11th March 2019." - The Third call under this measure was published on 26th November 2019 and closed on 24th February 2020." (p.28)
Measure 7 (In 2020)	- The First call for investments related to the farm diversification and business development was published on 1st July and closed on 30th October 2020."(p.28)

Sources: MAFWM Department for Management of IPARD Programme Republic of Serbia (June 2021) "*Annual Implementation Report on the IPARD II Programme for 2020*"

15 Abstracts

I Abstract (English)

The forthcoming accession of Serbia to the European Union presents a critical juncture for the country's agricultural sector, necessitating a thorough examination of how EU standards will influence Serbian agricultural companies, especially with export-oriented strategies. This master's thesis aims to elucidate the impact of new EU laws, regulations, market trends and internal company's changes in the strategic direction and value chain of Serbian agricultural firms. The primary focus is on how these external and internal factors will shape the market strategies of three case study companies: Agro Eko Voće, Medino and Moravac. Begging starts underscoring the historical depth and contemporary evolution of Serbian agriculture, emphasizing recent incentives and support systems aimed at aligning the sector with EU standards. This backdrop leads to the central research question: " How have the market strategy and value chain of Serbian agricultural companies been influenced during the process of Serbian accession to the EU?" The thesis explores this question though real-life examples of how three companies are navigating changes in laws, regulations and markets in Serbia and the EU. The structure of the thesis is based on the on a review of literature on the significance of institutional environments for organizations. The thesis posits three key propositions. First, EU accession provides Serbian agricultural companies with opportunities to enhance their value chains, potentially leading to higher organizational gains. This involves leveraging new Markets, accessibility, and funds to improve logistics, capacity, technology and profitability. Second, the accession process necessitates adaptation across various segments of the value chain, prompting companies to adopt differentiations strategies to meet the elevated standards and expectations of EU markets. Third existing inefficiencies in Serbia's legal and administrative structures impede the effective adaptation of value chains and strategies, highlighting the challenges posed by inadequate synchronization of national laws with EU requirements and limited governmental capacity. The methodology employs a case study approach, deemed suitable for exploring the macro-level changes brought by EU accession on micro-level subjects. The thesis examine the broader Serbian agricultural context and conducts in-depth semi-structured interviews with representatives from Agro Eko Voće, Medino and Moravac. This qualitative data is complemented by the analysis of legal frameworks, company documents, and secondary sources such media inter interviews and company websites. The case studies offer a nuanced understanding of how different braches of agriculture – primary production, value-added products, and fodder production are adapting to EU integration.

Agro Eko Voće, a company specialized in raspberry production and processing, exemplifies the potential for primary producers to transition to value-added products. Medino, a leader in honey collection, processing and export, demonstrates the challenges and opportunities in high-value product markets. Moravac, focusing on fodder production and livestock, illustrates the interplay between crop production and animal husbandry in the context of upcoming EU standards. Interviews were conducted in person in Serbian, recoded, transcribed and translated ensuring a comprehensive understanding of each company's strategy adjustments. The findings are analyzed using value chain frameworks (value plate) and Porter's Five Forces model for each company, providing insights into how external conditions influence internal strategies. This thesis aims to contribute to the academic discourse on agricultural economics and EU integration, offering practical recommendations for Serbian agricultural firms to navigate the complexities of EU accession. By understanding these dynamics, companies can better prepare for future challenges and capitalize on new opportunities in the EU market.

II Abstract (German)

Der bevorstehende Beitritt Serbiens in die Europäische Union stellt einen kritischen Wendepunkt für den Agrarsektor des Landes dar, die eine gründliche Untersuchung darüber erfordert, wie die EU-Standards serbische Agrarunternehmen beeinflussen werden, inbesondere jene mit exportorientierten Strategien. Diese Masterarbeit zielt darauf ab, die Auswirkung neuer EU-Gesetze, Vorschriften, Markttrends und interner Unternehmensänderungen auf die strategische Ausrichtung und Wertschöpfungskette serbischer Agrarunternehmen zu beleuchten. Der Schwerpunkt liegt darauf, wie diese externen und internen Faktoren die Marktstrategien von drei Fallstudienunternehmen prägen werden: Agro Eko Voće, Medino und Moravac. Zur Beginn wird die historische Tiefe und zeitgenössische Entwicklung der serbischen Landwirtschaft hervorgehoben, wobei die jüngsten Anreize und Unterstützungssysteme betont werden, die darauf abzielen, den Sektor an die EU-Standards anzupassen. Dieser hintergrund führt zur zentralen Forschungsfrage: „Wie wurden Marktstrategie und die Wertschöpfungskette serbischer Agrarunternehmen während des Prozesses des serbischen EU-Beitritts beeinflusst?“ Die Arbeit untersucht diese Frage anhand realer Beispiele, wie drei Unternehmen Veränderungen in Gesetzen, Vorschriften und Märkten in Serbien und der EU bewältigen. Die Struktur der Arbeit basiert auf einer Literaturübersicht zur Bedeutung institutioneller Umgebung für Organisationen. Die Arbeit stellt drei zentrale Thesen auf. Erstens bietet der EU-Beitritt serbischen Agrarunternehmen die Möglichkeit, ihre Wertschöpfungsketten zu verbessern, was potenziell zu höheren organisatorischen Gewinnen führen kann. Dies umfasst die Nutzung neuer Märkte, Zugänglichkeit und Finanzierung zur Verbesserung von Logistik, Kapazität, Technologie und Rentabilität. Zweitens efordert der Beitrittsprozess Anpassungen in verschiedenen Segmenten der Wertschöpfungskette, wodurch Unternehmen Differenzierungsstrategien annehmen müssnen, um die erhöhten Standards und Erwartungen der EU-Märkte zu erfüllen. Drittens erschweren bestehende Ineffizienzen in Serbiens rechtlichen und administrativen Strukturen die effektive Anpassung von Wertschöpfunsketten und Strategien und heben die Herausforderungen hevor, die durch die unzureichende Synchronisation nationaler Gesetze mit den EU-Anforderungen und die begrenzte Regierungsfähigkeit entstehen. Die Methodik verwendet einen Fallstudienansatz, der als geeignet erachtet wird, um die durch den EU-Beitritt auf Mikroebene hervorgerufenen makroökonomischen Veränderungen zu untersuchen. Die Arbeit untersucht den breitern serbischen Agrarkontext und führt eingehende semi-strukturierte Interviews mit Vertretern von

Agro Eko Voće, Medino und Moravac durch. Diese qualitativen Daten werden durch die Analyse rechtlicher Rahmenbedingungen, Unernehmensdokumente und sekundärer Quellen wie Medieninterviews und Unternehmenswebsites ergänzt. Die Fallstudien bieten ein nuanciertes Verständnis dafür, wie verschiedene Zweige der Landwirschaft-Primärproduktion, Produkte mit Mehrwert und Futtermittelproduktion – sich an die EU-intergration anpassen. Agro Eko Voće, ein Unternehmen, das sich auf die Produktion und Verarbeitung von Himbeeren spezialisiert hat, veranschaulicht das Potenzial für Primärproduzenten, auf Produkte mit Mehrwert umzusteigen. Medino, ein führendes Unternehmen in der Honigerzeugung, -verarbeitung und -export, demonstriert die Herausforderungen und Chancen in Märkten für Produkte mit hohem Mehrwert. Moravac, das sich auf die Futtermittelproduktion und Viehzucht konzentriert, zeigt das Zusammenspiel zwischen Pflanzenproduktion und Tierhaltung im Kontext der kommenden EU-Standards. Die Interviews wurden persönlich auf Serbisch durchgeführt, aufgezeichnet, transkribiert und übersetzt, um ein umfassendes Versändnis der Strategieanpassungen jedes Unternehmens zu gewährleisten. Die Ergebnisse werden mithilfe von Wertschöpfungskettenmodellen (Value Plate) und Porter's Five Forces-Modell für jedes Unternehmen analysiert, um Einblicke in die Auswirkungen externer Bedingungen auf interne Strategien zu geben. Diese Arbeit zielt darauf ab, zur akademischen Diskussion über Agrarökonomie und EU-Integration beizutragen und praktische Empfehlungen für serbische Agrarunternehmen zu bieten, um die Komplexitäten des EU-Beitritts zu navigieren. Durch das Verständnis dieser Dynamiken können sich Unternehmen besser auf zukünftige Herausforderungen vorbereiten und neue Chancen auf dem EU-Markt nutzen.