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**Virtues of Being Large?  
Farm Restructuring, Labour Arrangements and Network Strategies of  
Russian Large Farm Enterprises in Rostov and Pskov**

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# **Virtues of Being Large?**

## **Farm Restructuring, Labour Arrangements and Network Strategies of Russian Large Farm Enterprises in Rostov and Pskov**

Oane Visser

In the early 1990s, when market reforms and privatisation in agriculture started in Russia, the radical Russian reformers and many Western observers expected that the collective and state farms (kolkhozes and sovkhozes), would not persist for long. However, not private family (or peasant) farms, but the successors of the kolkhozes and sovkhozes, for many observers the symbols of the inefficiency of the Soviet economy, remained the dominant producers of market output in Russia, and some other FSU states (Lerman *et al* 2002).

How is it possible that the privatised, but still large-scale enterprises, the so-called ‘Russian Achilles heel’ (Laird 1997), have survived against all odds and show even tendencies of further concentration and enlargement in the form of take-overs or incorporation into agrohholdings? Are these Large Farm Enterprises (LFEs) ‘dinosaurs’ characterised by inertia and unable to survive in the long-term, or are they viable in the market economy? These questions form the central theme of this paper, which investigates restructuring and adaptation of LFEs internally (mainly the change in labour arrangements) as well as externally (the strategies of conducting business with other market actors, especially through networks). It is based on survey research (2001-2002) in two regions, more or less covering the extremes of the Russian agricultural spectrum. Pskov region, a poor region in the North-West of Russia, and Rostov region, a well-endowed region with the fertile soils typical of Southern Russia. In addition, in both regions (and Moscow region) short case studies and interviews were carried out. The 43 surveyed LFEs were ranked into four groups from 1 (medium/high profit) to 4 (medium/high loss).

Overall economic restructuring in the surveyed LFEs (in terms of changes in land, employees, machinery etc), although certainly not non-existent as some observers have stated, was partial (Spoor & Visser 2005). When it concerns the underlying labour relations and incentives, restructuring was much more limited (Visser 2006a), although LFEs taken over by agrohholdings may show more innovation (Rylko *et al* 2005). The first section of this paper describes the changes in labour arrangements and investigates why in-depth restructuring of labour arrangements (in the direction of decentralisation and performance-related payment) was so difficult. The socio-economic approach offered is based on an investigation of labour

and management issues in more detail from a historical perspective. It pays attention to the continued labour shortage and shortage of reliable machinery (Visser 2006).

The second section discusses the external strategies of the LFE, which show quite some dynamism (Serova & Khramova 2003; Spoor & Visser 2005), arguably more than their internal (labour) restructuring strategies (Visser 2003a,b; 2006a). In the planned economy informal bargaining through personal relations, outside of the official state channels was important for the success of *kolkhozes* and *sovkhoses*. Further, building on insights from transaction cost economics and economic sociology, survey data on LFEs' external strategies is used to show that cultivation of business as well as personal networks, in addition to forward integration discussed elsewhere (Spoor & Visser 2005), were important strategies for LFEs. The survey data demonstrate that personal networks were still crucial for the success of LFEs, just as shown by Radaev (2003) for Russian industrial enterprises. LFE respondents indicated that networks were important in various ways, to limit contract breach to smoothen negotiations, or to find reliable business partners.

The concluding section discusses how the difficult/limited restructuring process dealt with in section one, can be explained with insights on network strategies dealt with by section two. Further, the possible consequences of the increasing involvement of agroholdings in agriculture on these processes and strategies is considered.

## **INTERNAL STRATEGIES**

### *Decentralisation*

Reformers hoped that agricultural enterprises, even if they failed to split into smaller units, at least would be forced to shift from centralised farm operations towards more decentralised, market-oriented operations in which parts of the large-scale enterprises would be more autonomous than before. However, in reality, 'farms retain a strong central management apparatus, and the functional subdivisions have only token autonomy beyond production planning' (Lerman, Csaki & Feder 2002: 113).

The surveys in Pskov and Rostov clearly show that farm operations remain centralised in many respects. Only in 16% (7 out of 43) of the LFEs that were visited did branches have separate business plans. In all these LFEs, the central office made the business plans for the subdivisions. Only in one of the 43 surveyed LFEs, did part of the contract brigades practice self-accounting, concluding their own contracts and marketing the products themselves.

In only about 20,9% (9 out of 43) LFEs, were branches more or less autonomous accounting units. Back in the 1980s, financial accountability (*khozrchet*) was introduced for farm divisions. In six of the nine LFEs that were practicing self-accounting for subdivisions at the time of my survey, it was a continuation of Soviet *khozrchet* (financial accountability) practices. Only three of the interviewed LFEs had introduced financial accountability for divisions shortly after 1990 in adapting to the new market economy, and these were all medium/high profit farm enterprises.

The lack of qualified staff hinders the emergence of decentralised operations. My own observations at Russian LFEs confirm that administrative staff are centralised, and subdivisions as a rule have no more administrative staff than a secretary. Making subdivisions more autonomous would require most LFEs to attract new administrative staff, which is difficult as qualified people tend to migrate to the cities, or would mean investing in training existing personnel, which takes time and requires money.

#### *Performance-related Payments & Monitoring*

Performance-related payments have not increased since privatisation. In the majority of LFEs, the percentage of wages which is related to performance has remained the same, or even been reduced. In the Pskov region they had been completely abolished in the livestock branches of most of the surveyed LFEs, especially in the weak ones, because it would otherwise be too difficult to get livestock workers.

The rather large bonuses paid to tractor drivers are an exception. In two medium/high profit LFEs, they received bonuses in kind of 10-20 and even 20-30 tonnes of grain. In another medium/high profit LFE, the tractor drivers received 10% of the grain they harvested. Tractor drivers were already receiving the largest in kind bonuses of all workers in the Soviet period. Since the start of the reforms, their in kind income seems to have increased more than with other workers. These bonuses seem to function more as a way of keeping important workers attached to the LFEs, than as a way of increasing labour productivity.

When bonuses and other forms of performance-related pay are used, it is mostly based on the performance of the enterprise as a whole (in 74% of the surveyed LFEs). In about 30% of the surveyed LFEs, the bonus was based on the performance of a division or a brigade. If individual bonuses are paid (as in 46% of the LFEs) they are mostly used in combination with performance-related payment arrangements for larger units (brigade, division or enterprise), thus weakening the incentives for the individual worker. Moreover, the system of performance-related pay fails to provide the right incentives. Bonuses are generally based on

the fulfilment of a task within a predetermined period, without stipulating the quality. For instance, the members of a brigade or subdivision are paid if they manage to harvest a field in a certain time. Sometimes they (but mostly only the tractor drivers) also get a bonus connected to the amount of produce harvested. Numerous examples from the Soviet period illustrate the negative impacts of these payment systems on productivity. Tractor drivers, for instance, who receive bonuses per ploughed hectare tend to shallow plough to receive a higher bonus, which results in lower harvests. In Pskov it was rare for payment to be linked to the profitability of the production, whether in Rostov it was the case in the majority of LFEs.

When farm managers were asked why they did not increase the percentage of the salary related to individual performance, practically all of them answered that they had continued the old system simply because they were used to it. A livestock branch manager from a profitable LFE in the Moscow region said that he had introduced a new form of performance-related pay. It meant that employees received 10.5 percent of the profit from milk sales and, according to him, this was a good way to stimulate his workers. However, the number of managers that have introduced new reward-systems to stimulate workers is very limited.

The effects of performance-related pay are further weakened by the low level of wages. LFEs often do not have the finances to pay extra (performance-related) bonuses on top of the existing wages. If they do decide to increase the percentage/share of performance-related pay, it means that the already low 'fixed' wages decrease further. This is likely to lead to several problems similar to those observed in industrial enterprises by Morrison and Schwartz (2003), such as unrest among the workers and difficulty in attracting and keeping workers, (especially with regard to the arduous work in livestock farming). As many LFEs were hardly profitable, or even working at a loss, it was uncertain whether the increased effort (and productivity) of farm employees would result in higher bonuses. For many of them, their private plot was just as important as the formal work at the LFE (Visser 2006b). Consequently they were inclined to minimise work efforts at the LFE for the sake of their private plot production.

To sum up, there are few indicators of greater initiatives for farm employees. On the contrary, in the majority of LFEs, the reverse was happening in the 1990s and early 2000s: more central, authoritarian control and continued close monitoring instead of performance-related pay or decentralisation to stimulate worker initiatives.

Farm directors as a rule still work with (now yearly) plans for production. Strict orders from above are still the rule and, as a consequence, monitoring costs are high. Farm managers and specialists have to monitor strictly whether orders are actually carried out to a satisfactory

standard by the workers who are much more interested in their household plots. A farm director in Pskov told that if she does not monitor the production for just one day, negligence will surely occur. During a tour with an agronomist from a medium/high profit enterprise in Rostov, or for instance during my stay at the case study LFE, I could observe myself how important monitoring is.

Successful LFEs often have directors or managers, who have a good knowledge of agriculture and longer experience as a director, and thus have the ability to monitor the production processes very well, and are willing to do so. Among the surveyed LFEs the average number of years a director was in office, was 9 years in the medium/high profit LFEs, 6 and 7 years among low profit and low loss enterprises respectively, and only 4 years among the medium/high loss LFEs. However, given the huge size of the LFEs and the large number of workers this monitoring task is nearly impossible even for experienced managers.

The manager of one highly successful LFE in Moscow drove around the fields during the summer period from early in the morning to at least nine or ten in the evening every day. 'I practically live on the fields' he said. The specialists in this LFE could be found working until at least seven o'clock, and occasionally even to eleven o'clock in the evening whereas, at the neighbouring, unprofitable, LFE specialists had left the office already around four o'clock. Another farm director said that even in the mid-1990s, when even he did not receive his wages on time, he worked about 18 hours a day.

Monitoring is not only necessary to ensure fulfilment of tasks, it is also necessary to prevent the theft of farm property. In 45 percent of the LFEs specialists indicated that they monitored the work specifically in order to keep an eye on farm property, especially during the spreading of herbicides on the fields and during the harvest period.

### *Labour Relations in the Soviet Period*

The prosperity of a Soviet enterprise did not depend on its efficiency but primarily on successful negotiations by the director for inputs and favourable production quota (Clarke 1995). The lack of incentives to make production more efficient led to the familiar shortcomings of the planning system; labour hoarding, shortages of inputs, neglect of maintenance and repair. The combination of strict deadlines for plan fulfilment and irregular inputs and/or unreliable, neglected machinery led to an uneven rhythm of production, which underlie the considerable informal power enjoyed by the workers' collective. Due to their lack of instruments to stimulate and control labour and production collectively, directors depended heavily on their most experienced, qualified and hardworking blue-collar workers (Clarke

1995). These workers could keep the enterprises going, even when problems with supplies, spare parts or failing machinery were emerging, due to their improvisation skills and knowledge of the machinery and production process, and sometimes their willingness to work hard or overtime.

Management had little power to dismiss workers, as regulations for dismissal were very strict and there was a shortage of labour in society, due to the labour hoarding that all enterprises practised to cope with busy periods. It was also difficult for enterprises to find the required workers for vacant positions. While there was no labour shortage per se, there was a shortage of qualified (or hard-working) personnel, such as tractor drivers and milkmaids.

In agriculture, with more unpredictable production, and monitoring on the fields more difficult than in a factory hall, the managers had even fewer formal means to control labour and productivity than in industry. Therefore farm directors were even more strongly dependent on their core workers. Consequently a kind of ‘dictatorship of milkers and tractor drivers’ could emerge. As differentiation of pay was legally limited, farm managers tried to encourage workers’ co-operation through informal bargaining. In these negotiations social entitlements/privileges (especially housing) and support to household plot production (e.g. through use of machinery) played an important role.

Although management had little direct control over the labour process, the view that it had little power *vis-à-vis* the workers is not justified. There was a paradoxical situation: Soviet workers were powerful, in that managers were unable to impose labour discipline (or increase productivity) and had to make concessions to enlist their co-operation; but they were weak in that they were fragmented and had no means of collective resistance (Clarke 1995).

### *Labour Relations in the LFEs*

With less direct control by authorities on farm enterprises after privatisation, the power of farm directors over their enterprises continued (or even increased) (Nikulin 2002; Visser 2006a). However, despite the disappearance of the plan economy, their actual control over the production process, and their ability to restructure it, is still limited. How is this possible? Two factors are important to explain this: supply shortages and labour shortages.

### *Supply ‘Shortages’: Machinery*

First, although the causes of the Soviet ‘shortage economy’ have disappeared, and all kinds of inputs are now available, surveyed LFEs still faced shortages in terms of machinery (see also



Epstein 2005) and various material inputs simply because they lack the finances to buy them. Curiously, the LFE production growth in the first years since 1998/1999 coincided with further reduction of agricultural equipment. In 2001-2002 the sale of Russian tractors declined by 26,5% and only by 2004, they started to grow again (Bulletin Centre AFE 2005).

The unreliability or shortage of machinery, due to neglect or lack of finances throughout the 1990s, means that the power of workers over the production process is still strong. The irregularity of inputs and the bad state of machinery, combined with the huge size of the LFEs, make monitoring of the labour process extremely difficult. To illustrate this point, we will take a closer look at the situation with machinery.

The state of the machinery had sharply deteriorated in all but a few of the LFEs, medium/high profit ones, that were visited by the author. Some LFEs had survived the economic decline in the 1990s by selling productive livestock or their machinery. Furthermore, machinery and equipment had deteriorated because of the lack of responsibility shown by employees, or due to lack of spare parts and finances. The timely supply of spare parts was especially problematic in the 1990s. Since then the problems with obtaining spare parts have lessened, but most of the machinery has become so old and run-down that even with ample spare parts it is difficult to keep the machinery running. A farm accountant on an unprofitable LFE in Pskov said; 'the normal time to write off a *Belarus*-tractor is eleven years. We are forced to use them for twenty years already'. At another LFE I was told that one of the tractors was thirty years old. A manager at a LFE in Moscow complained about the difficulty of organising production with such old equipment; 'our machinery is old and run-down. Every day something breaks down. This way we have to harvest. Everything is falling apart'. Even the majority of the stronger farms lack the finances to buy sufficient new machinery. It should be noted that in LFEs with outside investments the situation is starting to improve.

During the communist period, agricultural institutes calculated the productivity of tractors and combine harvesters for all kinds of crops so that the planning apparatus and the farm specialists could plan and control production. Farm specialists still use these norms but, due to the bad state of machinery, farm workers are no longer able to harvest as many hectares of crops per hour as the norms prescribe. A farm worker on a profitable enterprise in Rostov told me; 'You should have seen how we did the harvest. Tractors drive for 100 metres and then break down. They drive another 100 metres and they stop again, and so on...'. Tractor drivers are generally very creative in fixing these breakdowns in the field, but planning the harvest or production effectively becomes all but impossible.

Furthermore, assessing the performance of tractor drivers becomes impossible because of the bad state of the machinery. How can a manager know if a delayed tractor driver was indeed busy repairing his tractor out in the field, or simply sitting down with a colleague because he was not motivated to work? In such a situation of poor machinery and insecure supplies of spare parts, the managers have to depend on the creativity and goodwill of the mechanics to solve technical problems, and so it is difficult for them to be strict.

### *Labour Shortages*

A second reason why farm managers found it difficult to enforce discipline is because they were reluctant to dismiss workers. Farm directors told me that they found it difficult to replace fired workers. One farm specialist from a medium/high loss LFE in Pskov, told me that not only did they not dare to fire employees, they in fact had no means at all to enforce discipline. A specialist in an unprofitable LFE in Pskov also admitted that they had no effective means whatsoever to enforce discipline. At first sight, such remarks seem quite surprising given the high levels of unemployment in rural areas. Employment in the surveyed LFEs had fallen by 55 percent on average (Spoor & Visser 2005). At the same time, little new employment has been created, except for the limited number of private farms and, even more rarely, small enterprises in the service and trade sectors. Rural employment reached 10% in 2003 compared to 8% for the urban population (Bogdanovskii 2005). As a consequence of the selective out-migration the old, least entrepreneurial people remain.

When managers stated that finding employees is problematic, they did not mean that there are no people available at all, but that it is difficult to find experienced, or reliable, hardworking personnel. When farm specialists were asked about the main disadvantage of their LFE compared with others, the most frequently mentioned problem was the lack of good employees or the bad work mentality. Table 1 shows that in nearly 90 percent of the LFEs a decline in experienced employees was reported (including 68 percent with a moderate, and 20 percent with a sharp, decline). All the surveyed LFEs with a stable number of experienced employees were profitable, and the one LFE where specialists reported an increase in experienced workers, was a medium/high profit one. Epstein (2005) also showed that LFE profitability correlates positively with number of employees, more so than the amount of machinery. The lack of hard-working employees seemed to be even more of a problem than the shortage of qualified ones (Bogdanovskii 2003).

TABLE 1. CHANGE IN THE NUMBER OF EXPERIENCED EMPLOYEES 1991-2001/2002

Profitability of LFE	Increase		No change		Moderate decline		Sharp decline		N
	Nr	%	Nr	%	Nr	%	Nr	%	
1	1	8	2	17	9	75	0	0	12
2	0	0	2	17	9	75	1	8	12
3	0	0	0	0	9	69	4	31	13
4	0	0	0	0	1	25	3	75	4
Total	1	2	4	10	28	68	8	20	41

*Source:* Own survey (N=43, missing data: 2) *Note:* as reported by farm specialists

The observation by Clarke (1995) about the Soviet enterprise management, that management still depended heavily on a small core of experienced and hardworking workers, who kept the enterprise going when inputs were not on time or machinery breaks down, is still true for the post-Soviet LFE. As an agronomist in Rostov remarked: ‘only about 10 percent of the farm workers I consider reliable’. An interviewed chairman of a LFE with over 300 employees in this region further stated: ‘there is a core of about ten to twelve farm workers, who in fact keep the whole enterprise going’. That a LFE has to rely on a small core of experienced, hard-working employees significantly reduces productivity and prospects for recovery. As a director in Pskov stated: ‘now we only have 410 cows. Within a year we could have an extra 120, raised from our own calves, but there are no workers who I can trust to care for them. 30% of the milkmaids are drunk. That is why we can improve the situation only slowly’.

Russian agroholdings, which have started to invest in LFEs since the recovery in agriculture, are sometimes even bringing in people daily from the cities by bus. However, such practices are beyond the capacity of the average LFE. It is especially difficult to find skilled ‘core workers’ such as mechanics and tractor drivers. During a visit to an LFE in the Moscow region, the director complained about the decline in tractors. Only 13 now remained at the LFEs that would have had about 30 during the Soviet period. However, even with such a decline, the shortage of reliable tractor drivers was more problematic. The director said: ‘some of the tractor drivers I don’t dare to give the machinery, because I am afraid that they will ruin it completely’. In the survey by Bogdanovskii (2003: 36) in Rostov, and also in Nizhnii Novgorod and Orel, 27 percent of the enterprises mentioned the problematic lack of tractor drivers. Furthermore, livestock workers are difficult to find. A job at a livestock branch means low pay and arduous work, with long workdays involving shifts, throughout the year, whereas arable workers have little to do during the winter period. Thus, especially in this branch, managers are afraid to fire undisciplined workers. The 2003 BASIS survey (Bogdanovski 2005) showed labour shortages in 33% of the LFEs.

## EXTERNAL STRATEGIES

How is it possible that LFEs have persisted, and even enlarge production (and sometimes productivity) despite such limited changes in the direction of decentralisation or performance-related pay? To explain this, this paper argues, more attention is needed for external strategies (mainly the integration and network strategies) of LFE, in addition to the study of internal ones. Based on the survey data in Pskov and Rostov, various advantages of forward integration (less problems of payment arrears, more choice in purchasers, more power in bargaining) were discussed elsewhere (Spoor & Visser 2005), showing that the LFEs conducting integration were the most profitable ones. The next sections focus on the network strategies. Network theory suggests that enterprises with greater individual social capital, as represented by well-developed social networks, might be more successful. Various studies indicate that networks were important in the communist system, and still are so in the post-communist, transitional economy (e.g. Radaev 2000; Visser 2006). Building up such networks requires significant time and attention from the farm management. If investment in such networks (and in addition integration strategies) delivers more gains, than embarking on the difficult process of labour restructuring, the first option might be a rational choice in current circumstances.

Networks can offer certain benefits to enterprises. Williamson (1991) hypothesises that networks are especially important when flexibility is needed, as in fast changing and in insecure transition economies. General theory on networks by sociologists and economists (e.g. Powell & Smith-Doerr 1994), and studies among Russian industrial enterprises (Radaev 2000) shows that when managers have (or create) personal relationships with business partners, trust amongst network partners increases. When there is greater trust transaction costs diminish, and become a form of social capital. Social ties lead to more stable networks and enhance economic gains to a certain threshold (Powell & Smith-Doerr 1994).

Integrating theoretical insights from institutional economics with sociological theories of networks enables us to outline several related functions of networks which are important in the context of business transactions. Here two functions of networks related to diminishing transaction costs will be discussed.

Firstly, networks can reduce transaction costs (Williamson 1991) by easing negotiations concerning transactions and the contract conditions (advance payment, prices, or return delivery in a barter deal), and/or diminishing transaction costs due to contract breach by partners, through the trust characteristic of more personalised networks (for instance by

avoiding the costs of going to court) (Radaev 2000). Secondly, transaction costs related to difficult negotiations and contract breach can be diminished in advance by selecting reliable business partners. Networks, as a rule, form a good way to collect confidential information about the reliability of potential partners (Uzzi 1997).

The survey data and the accompanying interviews with managers in Pskov and Rostov, showed that business relations in the Russian food sector do indeed often have a social component. A director of a food processing firm stated, 'some of my business partners have become friends. I stay over at one of my business partners when I go to St. Petersburg, and he stays at my place when he is in Pskov on business'. The director of a dairy stated, 'I personally know all the directors of the LFEs that deliver to us. I know if they have a wife and how many children they have. I know that he [the director of a supplier who was visiting] has just had a baby, only I don't know if it is a boy or a girl'.

The more profitable LFEs, in addition to larger and geographically more spread out economic networks (Spoor & Visser 2005), had *larger* social networks. The differences in network size were quite pronounced, as the personal networks of the most profitable LFEs were more than four times larger than those with the lowest profitability. The finding that profitable LFEs have larger social networks, seems to be connected to the stability of the management. The profitable LFEs in the survey had less frequent changes in leadership than the weaker ones, which enhances building personal networks. With a change of director, a LFE also loses its social capital, which the old director had built up in the course of repeated transactions and visits.

### *Benefits of LFE Networks*

It seems that, in Russia, the mutual understanding that enters into business relations as they become more social does indeed diminish opportunism and antagonism, and softens negotiations in transactions between LFEs and other companies in the commodity chain. As a private farmer in Moscow put it, 'personal relations are important in business. They can solve many of the problems that arise'. The earlier director of a dairy in Pskov observed, 'With old partners we solve problems in negotiations, while otherwise we would have go to court'. The main accountant of a LFE in Moscow stated that she regarded old partners as more reliable. The director of a flax factory in the Pskov region explained about the contacts with LFEs; 'around the table with coffee and tea we solve all problems. The longevity of a business relationship and knowing a director is very important'. The accountant of a LFE in Pskov stated; 'when you know a director personally, things go more rapidly'. If the directors know

each other it makes a difference with regard to fulfilment of a contract, including payment, agreed the accountant of an LFE in the Moscow region, '[w]hen directors know each other, they generally find a solution. They barter or they pay'.

TABLE 2. INFLUENCE OF SOCIAL RELATIONS ON PAYMENT RECORD OF BUSINESS PARTNERS

Profitability of the LFE	Do Social Relations Influence the Payment Record of Business Partners?			
	Yes	No	(N)	Missing
1	10	0	10	2
2	9	1	10	3
3	10	2	12	1
4	3	2	5	0
Total	32	5	37	6

Source: Own survey (N=43, missing data: 6)

The survey data provide further support for the above-mentioned statements: 32 out of 37 (86 %) of the interviewed specialists and directors of the LFEs stated that business partners have a better payment record when they are acquaintances of the director of the enterprise (Table 2). What differences can we distinguish between the social relationships, and their functions, of profitable LFEs and those of the less fortunate LFEs? Our survey asked farm enterprise managers whether personally knowing the manager of a partner enterprise influences the timeliness of payments (Table 2). Their answers provide an indication of the effect, and thus the strength, of personal relationship (or at least the subjective attitude of directors towards the importance and use of social relationships). The percentage of respondents stressing the influence of personal relations increased as profitability increased. Of the medium/high loss LFEs, only three out of five respondents thought that personal relations positively influence payment, while all of the highly profitable ones acknowledge the positive influence of social ties in business. The data concerning the frequency of contract fulfilment confirmed this pattern, although the data about the delay (in weeks) were scattered and did not provide clear evidence that profitable LFEs experienced less delays (nor the opposite).

Enterprises tend to receive reliable information mainly through their long-term, personal network (Uzzi 1997). Information about the reliability of new partners is the kind of information they most effectively receive through their long-term network contacts. Networks partners are in an ideal position to give valuable information about new partners based on their first-hand experience in dealing with them, or they can gain information about experiences through their own partners. Further, network members can make first contacts easier by introducing potential partners to each other. Radaev (2000: 17) cited a director who

stated; ‘we do not use business cards...if you are introduced to somebody new it is done through those with a high reputation’.

TABLE 3. HOW DO YOU FIND OUT WHETHER A PARTNER IS RELIABLE?

Profitability of LFE	Through network		Just try co-operation		Other		N
	Nr	%	Nr	%	Nr	%	
1	11	100	0	0	1*	9	11
2	7	64	3	37	1**	9	11
3	3	50	3	50	0	0	6
4	2	50	2	50	0	0	4
Total	23	72	8	25	2	6	32

Source: Own survey (N=43, missing data: 11) \* respondent gave 2 answers: other (authorities) & networks

\*\* ‘other’ here meant checking through the LFE’s bank (could also be considered as ‘through network’)

Table 3 indicates that all the medium/highly profitable LFEs gathered information about new partners through their network of partners and acquaintances, and for the low profit LFEs it was also the main way. For the unprofitable LFEs a different picture emerged: half of them did not gather information in advance. They just started a co-operation, with the inherent risk of later contract breach by the new partner.<sup>1</sup>

## CONCLUSIONS

Tendencies of reinforcement of Soviet-era structures, such as the continuation of labour arrangements and the continued importance of networks, were found to be rather strong (Visser 2006), although they may be presented (or covered) by market terminology by the management (Nikulín 2002). Such continuities are easily interpreted as inertia or resistance to reform. It is argued here that the limited restructuring that was observed, could be characterised as largely rational, once one takes into account the specific constraints resulting from continued (or renewed) supply and labour shortages, and the benefits (not only the costs) of continuing the social infrastructure for the LFE (Visser 2006a).

Furthermore as a successful farm manager in Pskov stated: not just production, but marketing is most essential to survive in the market economy. In the sphere of marketing networks play an important role as they, amongst others, diminish problems of contract breach and finding reliable new partners. The benefits of cultivation of networks (and in addition vertical integration) as indicated by the managers of the surveyed LFEs, suggest that

<sup>1</sup> The fact that profitable LFEs inquire first about the reliability of potential partners through their networks, rather than just starting cooperating, seems to be an effective strategy that minimises risks. Strong differences existed in the evaluation of the benefit of the change to new purchasers. None of the profitable LFEs indicated that the change of partner appeared to be a bad choice, while 64% of the unprofitable ones indicated that it had not been a success. Networks were also important for finding other market information (Visser 2006c).

to explain the persistence of the successors of kolkhozes and sovkhozes, despite limited internal restructuring in the 1990s and the early 2000s, not only a focus on economies of scale in production is needed. Also more attention for what could be termed ‘economies of power’ (especially if contacts with authorities would be included in addition), or the ‘economies of scale’ in bargaining with other market actors (or authorities) would be necessary.

What effects will the growing influence of agroholdings have on the internal and external strategies of the LFEs? LFE managers tend to believe strongly in the benefits of a large enterprise. Consequently, further enlargement instead of downsizing is likely. When the director of a medium/highly profitable LFE in Rostov, with more than 10,000 hectares of land, was asked why his LFEs was more successful than others in the district, he answered ‘because we are larger’. Managers of some of the less successful LFEs in Rostov, attributed their problems to the fact that they were ‘quite small’ compared to others (though they still had 5,000 to 6,000 hectares). The director of an agroholding in Rostov, incorporating two LFEs and one dairy, in turn complained that the disadvantage of his company was the small size compared to larger agroholdings. The ‘smaller’ agroholdings (up to 30,000 ha) tend to expand, although the largest ones tend to remain stable in size (Rylko & Jolly 2005: 2).

Outside investors/agroholdings can offer higher wages, which means that more easily a shift to performance-related pay can be made. Growing investment in machinery leads to increasing labour productivity. Further, the more reliable machinery may diminish the problems of monitoring tractor/ combine drivers. Of course the higher wages that agroholdings might offer, also makes it less difficult to attract qualified employees. However, without substantial investments in the, mostly deteriorated, social infrastructure (in the first place housing, but also schooling, social activities etc.), it will remain difficult to lure experienced and hardworking employees to the countryside (or keep them).

Further, it is highly questionable whether long-term productivity gains and international competitiveness are possible without changes in the direction of more worker-initiative and decentralisation within LFEs or agroholdings. In addition to the above-mentioned beliefs among the farm managers, the orientation of the outside investors is also not conducive. The decision-making structure of such holdings is typically rooted in an industrial or trade culture ‘that emphasises economies of scale, standardization and top-down approaches’ (Rylko & Jolly 2005), while agricultural production requires flexible and location-specific solutions. Although examples of some experimentation with decentralisation and worker-initiatives are not non-existent (Rylko & Jolly 2005), overall the influence of agroholdings is strongly connected with further centralisation (Nikulin 2005; Rylko & Jolly



2005), hierarchy and, mostly, worker disempowerment (Nikulin 2002; 2005). It was observed in the LFEs in Rostov and Pskov that farm workers have some informal power day-tot-day production, (but not on the more general farm issues), although this is just a small group of core workers. Taking into account orientations of the farm managers and agroholdings it seems unlikely that this informal control will soon be transformed into more systematic and farm-wide initiative and responsibility among farm employees.

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