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Managing into the 21st Century - Global Aspects Management Challenges in Europe

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ABSTRACT

The paper presents a European view on the challenges European managers of farms and agribusiness firms will encounter during the next 10 to 15 years. As Europe is a very diversified continent, the countries have been grouped into three regions: Region I: 15 countries of European Union (EU15), Region II: 10 Central European States (CES), and Region III: countries of former Soviet Union (FSU). The regions show distinct differences as to actual situation and forthcoming challenges: Managers in EU15 are challenged particularly by growing competition on internal and international markets and by increasing importance of ecological aspects. In striving for admission to EU the CES-managers have to prepare their farms and firms - under the conditions of the still uncompleted transformation process with unstable legal and unfavorable economic conditions - for tough competition in European and international markets. In summary, these countries show positive developments, in contrast to Russia. There the situation is characterized by a lagging transformation process, serious institutional deficits, and an uncertain political situation. Seven decades of Soviet regime adversely affected people's mentality. The economic conditions are unfavorable. It will take the Russian government decades to provide the fundamental conditions on which managers can build well-functioning profitable enterprises.

Introduction

Management challenges arise from significant changes and chances in or relevant to the unit to be managed. They call for actions. The actions shall result in mastering the situation under the actual or expected conditions. The following paper rests on this conception, and as all changes are rooted in existing situations, firstly, the actual situation will be analyzed for illustrating the nature and impact of the changes.

To simplify the presentation Europe will be divided into three regions:

Region I: The 15 countries of the European Union (EU15),

Region II: The 10 Central European States (CES), associated members of EU,

Region III: The European countries of the Former Soviet Union (FSU).

Each region will be analyzed separately focusing on significant changes in political, economic and institutional fields. From these the challenges and perspectives shall be derived. A map of Europe (Figure 1) and a compilation of statistical figures (Table 1) may help in dealing with the countries and understanding the economic and social characteristics of the regions. For comparison, key information on USA is added.

Map of Europe

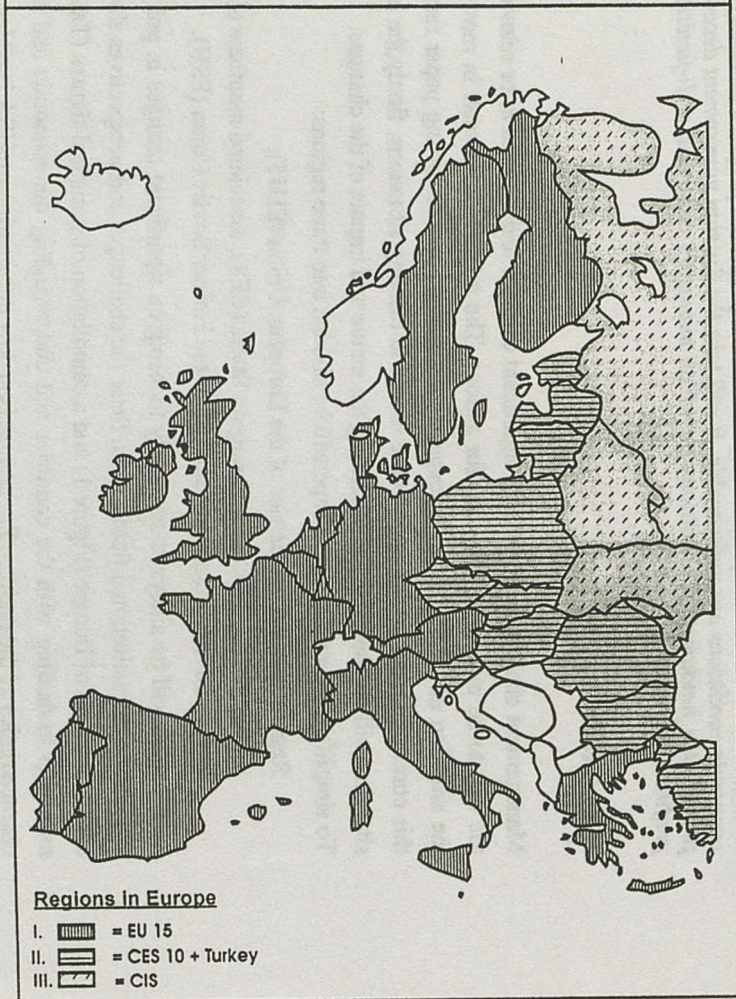


Figure 1: Map of Europe

Legend for the three Regions:

Region I: The EU 15 countries

1. Belgium
2. Denmark
3. Germany
4. Greece
5. Spain
6. France
7. Ireland
8. Italy
9. Luxembourg
10. The Netherlands
11. Austria
12. Portugal
13. Finland
14. Sweden
15. United Kingdom

Region II: The EU-associated Central European States

1. Poland
2. Hungary
3. Czech Republic
4. The Slovak Republic
5. Slovenia
6. Romania
7. Bulgaria
8. Lithuania
9. Latvia
10. Estonia

**Region III: European countries of former
Soviet Union (excl. Baltic states)**

1. Belarus
2. Ukraine
3. Moldova
4. Russian Federation

Table 1: Key Figures on Economy and Agriculture in Europe (1994)
(USA for comparison)

| Item | Unit | EU15 ¹ | CES ² | Russia ³ | USA ⁴ |
|--------------------|------------------|-----------------------|------------------|---------------------|------------------|
| Population | Mio inhabitants | 370.1 | 105.5 | 148.0 | 263.1 |
| Labor force, total | Mio employees | 145.2 | 35.0 | 68.5 | 119.3 |
| share of unempl. | % of total empl. | 11.2 | n.a. | 9.3 | 6.1 |
| Ag. labor, total | Mio ag. empl. | 8 190 ⁵ | 9 540 | 10 070 | 2 040 |
| share of ag.empl. | % of total empl. | 5.6 | 26.7 | 14.7 | 1.7 |
| Inflation rate | % p.a. | 2.7 | 10 to 25 | 220 | 1.8 |
| GDP total | Biln. ECU | 5 905 | 188 | 552 | 6 245 |
| productivity | ECU/ cap. GDP | 16 733 | 5 581 | 3 382 | 19 325 |
| GDP of ag. sector | Mio ECU | 111 474 | 14 687 | 44 121 | 76 646 |
| share of ag.GDP | % of total GDP | 2.5 | 7.8 | 8.0 | 1.7 |
| Agric. land, total | Mio ha | 140.5 | 60.6 | 209.2 | 426.9 |
| per capita | Ha/capita | 0.37 | 0.57 | 1.41 | 1.62 |
| Farms, large/small | Nrs. in ths. | 200/7525 ⁵ | 26/11760 | 27/320 | 2060 |
| av. size large/sm. | Ha/farm | 235/10.9 | 1007/2.9 | 5762/0.55 | 206.7 |
| share of large f. | % of ag. land | 38.0 | 43.5 | 72.6 | |
| Agric. Production | Mio t of cereals | 173.7 | 73.7 | 78.6 | 288.2 |
| | Mio t of milk | 119.6 | 26.0 | 42.3 | 69.7 |
| | Ths. t of meat | 33 677 ⁶ | 6 800 | 6 810 | 33 850 |
| Agric. exports | Mio ECU total | 41 758 | 6 877 | 2 411 | 47 421 |
| share of total | % of exports | 7.8 | 11.5 | 3.7 | 12.7 |
| Agric. imports | Mio ECU total | 48 865 | 6 665 | 8 637 | 34 998 |
| share of total | % of imports | 9.1 | 10.4 | 26.1 | 6.8 |
| Subsidies | % of ag. income | 48 | n.a. | n.a. | 23 |

Sources: Compilation of data from different statistical sources required additional calculations. Furthermore, data from Central and Eastern European countries vary as to methodology and reliability. The figures should be read as indicators for the situation in the respective region rather than a precise reproduction of the reality. Footnotes show the main sources.

¹ EUROSTAT, Agrarstatistisches Jahrbuch (1996)

² EUROSTAT, Agrarstatistisches Jahrbuch (1996), and EUROPEAN COMMISSION (1995)

³ GOSKOMSTAT ROSSIJ, Statistisches Jahrbuch (1995a), Ugarov, Alexej (1997), and FAO Production Yearbook (1995)

⁴ EUROSTAT, Agrarstatistisches Jahrbuch (1996), and FAO Production Yearbook (1995)

⁵ 1993

⁶ EU 12

1. Challenges in Region I: The EU15 countries

1.1 The general and agricultural situation in Region I

The general and agricultural situation in the EU15 countries shall be characterized by ten statements:

EU15 - a politically and institutionally uncompleted union with many uncertainties

After 40 years, politically and institutionally the EU15 is still in the process of reconstruction, although meanwhile 80 000 European regulations have been introduced. Most importantly, a general consensus as to the political substance and structure of the EU and a unified monetary system are missing. Nevertheless, the EU has become a reality for all member countries in fields of political, economic and social life. Many Europeans believe that the „force of facts“, generated by the ongoing process of „constructing the European house“, will lead finally to a real European Union during the first decades of the 21st century.

European Monetary Union - a matter of uncertainty and difficult preparations

The European Monetary Union shall function as of January 2002 with the „EURO“ as the new European currency. It is still uncertain which countries will be able to participate as none of the large EU countries meets the stipulated requirements. In addition, in some countries influential political groups exist which act against the European Monetary Union because they dislike this final step of forming the European Union, for political as well as for economic reasons. For business managers the change from the national currencies to the EURO creates enormous preparatory works and costs because of the great number of institutional adjustments to be made. But in the long-run the prospects are positive because a single currency will bring forth better market transparency and fair intra-EU competition.

EU15 - an active partner in international food and commodity markets

The EU15 countries are highly industrialized, realizing on average 16 733 ECU GDP p.cap. (1994). Agriculture is not a predominant economic sector; it contributes only 2.5% to the total GDP. Nevertheless, agriculture plays an important role in EU as can be seen from the 56% share of the EU budget which is allocated to agricultural programs (1996). Furthermore, in some EU countries, such as Ireland, The Netherlands, Denmark and Greece, food industry and agriculture are the main exporters contributing 40 to 60% to the total national export revenues while in other countries, such as Germany and United Kingdom the expenditures on imports surpass the revenues from exports by 10 000 Mio ECU. In 1994 the EU countries spent on imports of food and agricultural products in total 146 000 ECU (= 22.6% of

total) and realized 143 000 ECU from exports (21.2% of total, in 1994). 65% of the aggregates refer to intra-EU trade. These figures indicate the importance of the respective sector in the EU. For success in this field the producers must withstand a twofold competition: on the EU-internal as well as on the global markets.

EU agriculture - a well protected and highly subsidized sector

The EU markets are fully integrated into the world markets except few protected sectors, such as agriculture. Through protective regulations and subsidies 48 percent of the agricultural income (1995) stems from public support (for comparison: USA 23%). Most likely in future, EU farmers will be confronted with falling product prices, rising production costs, and decreasing subsidies caused by reforms in EU agricultural policy and the forth-coming WTO negotiations. In addition, the „terms of trade“ in agriculture fell to 89.5 % from 1990 to 1995.

EU - a region with agricultural surplus production

In EU production of main agricultural products such as cereals, sugar, meat and milk surpasses domestic demand up to 25%, even though restrictive political programs have been applied in EU since almost 20 years (quota, set-aside programs etc.). The effects of these programs have been absorbed by increasing productivity in crop and animal production; and the productivity is still on the rise (1.5 to 2.5% p.a.).

East Enlargement forms a matter of concern to EU agriculture

Enlarging EU15 by admitting associated CES produces two main concerns to European agriculture. They refer to the agricultural markets, and to the costs of the enlargement. The EU Commission launched a special impact study which provided well-founded information (1995). In essence, the study detects a great potential for increasing agricultural production in most of the ten countries. They produce on comparatively low cost levels, and are highly interested in exports to the EU markets. Therefore, an increase of exports of food and other agricultural commodities to EU markets can be expected which will lead to tougher competition and lower product prices. Thus, EU managers might face a big challenge although the study indicated that in most CES it will take more than 5 to 8 years (with great differences between the countries) to improve the quality and marketing of products needed for successful competition on the European and world markets. Similar effects are feared from the additional costs if the recent EU Common Agricultural Policy shall be extended to the incoming CES. They are estimated at 13 000 Mio ECU for all 10 countries, mainly caused by price and export subsidies. As these payments will stimulate agricultural production and lead to still more overproduction, EU farmers expect the agricultural policy to react through production restricting measures and downward adjustments of regulated product prices.

EU - a region with an inherited unfavorable but rapidly changing agrarian structure

Due to hereditary customs, in many EU countries the agricultural land has been fragmented into little strips and plots, and the majority of the farms were left with few hectares of cultivable land. Despite of continuous efforts in land consolidation and concentration during the last decades, in most EU countries the actual agrarian structure is still far from suiting nowadays' technological farming requirements. 81% of EU farms dispose of less than 20 ha land (1993). Many of them also cannot satisfy the families' income needs. For sustainable farm operations the „threshold“ is considered to be now around 100 ha of fertile land, 100 well-producing dairy cows or 200 mother sows. The vast majority of EU farms fall far below these sizes, and only a minority of 5% of the farms manage at present corresponding enterprises. The other 95% of the farms will have to find appropriate answers to the up-coming economic and technological conditions. Growing pressure after 1992 (EU reform of agricultural policy) have raised already the structural changes in EU countries up to 3 to 5 % annual reduction in farm population.

EU - a region with efficient and competitive farming

Although small in numbers, in EU large and medium sized farms are the main supplier of the agricultural markets. Defined by European Gross Income Equivalent (1 unit = 1000 ECU) the „large farms“ (>100 units) comprise 6% of the total number of farms. On average, they reach a gross production value of 266.500 ECU and a family income of 43 200 ECU on 103.7 ha farm land (1994). But also medium sized farms (40 - 100 units), comprising 19% of the total number of EU farms and averaging 26.800 ECU family income, may strive successfully for profitability and sustainability through organizational and structural adjustments, specializing on highly productive enterprises, and forming group farms or partnerships for cost sharing. They also enlarge their business by combining agriculture with other income generating activities, such as communal and other customer services. In densely populated regions the opportunities are plenty.

EU agriculture - a sector with great importance for regional development

In most EU countries farming is predominantly a family business. 70% of the total 7.83 Mio agricultural labor (1995) belong to the farming families. A reduction of the number of farms by 3 to 5 % p.a. means that 200 000 to 300 000 farm families are losing their working place. This creates serious social problems in view of the actual unemployment rate of 10 to 20% in EU countries. In addition, Europeans learnt through history that rural exodus leads to break-downs of the social, cultural, educational and administrative structures. Therefore, EU applies a preventive policy to retard the structural changes and to subsidize agricultural and nonagricultural

economic and social development in rural areas; at least for giving the families the chance of leaving the agricultural business at appropriate time, for instance, when the generations change.

EU - a region with growing influence of ecological and environment concerns

Since the 80ies, significant changes took place as to ecological and environmental issues. „Green Movements“ and „Green Parties“ became influential in political and institutional fields. A growing number of legal regulations enforcing „biological“ technologies in crop and animal production and environmentally non-violating resource use, led to reduced flexibility in production programs and to higher production costs. At the same time, consumers showed growing interest in „Bio-Food“ and produces from „Ecological Farming“. However, it remained a „niche“ market. Till now its share runs around 3% of the total agricultural production value. The same holds true for the non-food agricultural products. Significant changes in technology and economy are needed for making them a reasonable option for a substantial proportion of EU farms.

1.2 Challenges and Responses in EU15 countries

The main challenges to EU farmers and agribusiness managers during the next 10 to 15 years can be derived from the above mentioned problems and changes as follows:

- (1) Restrictive EU agricultural policies, growing influence of international competition, and binding ecological and environmental regulations will challenge the entrepreneurs' qualification in a very basic and broad sense because adjustment and rationalization of the existing enterprises is needed. Technical, financial, organizational, and structural innovations targeted to increase factor productivity and cost efficiency have to be accomplished.
- (2) The efforts aiming at high factor productivity along with low costs of production and marketing will have to be supported by stringent *cost management procedures*. In this context, smaller agricultural firms will predominantly strive for reduction of labor and machinery costs by specializing the production, out-sourcing, and cooperations. Larger farms will pay special attention to „lean“ but nevertheless effective administrative structures. As a special challenge EU farmers are confronted with an immense load of „paper work“ caused by the thousands of EU regulations now in place. They consume on an average commercial farm about 500 hours of a qualified person per year, and the load is still growing. Effective procedures for handling this matter have to be developed.
- (3) Future EU and international agricultural markets will require high product quality, i.e., safe and healthy food of good taste. Effective *quality management programs* will become a necessity. Branding and labeling the produces may become

important tools for establishing trustworthy consumer relations. EU policies support that development by introducing „norms“ (f.i. ISO 9000) which stand for control and documentation of the complete production process of the respective product. So far, only a few agricultural EU firms went through the certification procedures but the idea of standardization finds growing acceptance. It is realized in various „quality insuring“ and „confidence inspiring“ production and marketing programs.

(4) For coping successfully with the above-mentioned challenges it will be indispensable to establish an appropriate *information management system (IMS)* in each management unit. It shall provide with low costs all information needed for intelligent enterprise management. Based on continuously monitoring and controlling the data from the own enterprise it shall integrate data as needed from outside. Public and private data sources will allow for analyses of special management issues. The business office is becoming the farms' most productive working place and the key element of successful farming.

(5) A small number of EU enterprises will feel challenged by the increasing demand for „Bio-Food“ and products of „Eco Farming“. As *niche products* they have narrow markets and very demanding consumers. Therefore, the decisive management task rests - still more than in „normal“ agriculture - in establishing good market relations and ensuring stable product quality and appropriate response to clients' demands.

(6) Last but not least, the basic challenge to European agricultural managers is to *change the mentality* of expecting the EU Commission will „prepare their future“. The growing number of supporting programs and the big share of agricultural income from subsidies created a wide-spread mentality of dependence and risk aversion. But good managers should know that their good fortune depends on their professional competence and innovative management rather than on administrative orders and legal regulations. They have to explore and make use of the immense potential of technological, organizational and scientific progresses. They should be flexible and prepared to accommodate to an EU policy which sets only the „rules of the game“. Gorbatchev is told to have said: Socialism did not collapse because of the weaknesses of the system but because of the adversely effect on people's mentality the system created. One should take notice of that statement when reflecting on the perspectives in future Europe, not the least in agriculture.

2. Challenges in Region II: The EU-associated Central European States (CES)

Ten of the Central European States have been accepted as „associated members“ by EU. According to that status they are countries which prepare for admission as regular members. The members of EU will decide on the admission of the individual country according to its political and economic development. In this respect, the ten countries fall into two groups:

- (1) the four CEFTA countries plus Slovenia; they are comparatively well advanced due to economic relations to western countries since the early 80's; they expect their admission to EU within 5 to 8 years' time;
- (2) the other five Baltic and Balkan states which remained under socialist „commanded economy“ till the early 90's; they have still a much longer way to go till they satisfy the admission conditions of EU.

2.1 General situation in the agriculture of Region II

In 1994 the EU Commission launched a study program on the impact of the admission of the ten CES. The following *statements* are primarily based on the findings of that study.

CES are countries still in transition

The study revealed that all associated countries are still heavily engaged in the transition process. After the radical political change the countries went through a period of deep economic recession which impoverished the economy by collapsing markets, and the whole nation by sky-rocketing inflation (up to 1000% p.a.). But meanwhile they passed the „bottom of the valley“, and the economic parameters show positive trends, especially in the five countries of the first group.

In CES the agricultural sector is of great importance

The economic and social importance of agriculture in the CES is indicated by its substantial contribution to GDP and to national employment (on average 7.8% and 26.7% resp. in 1994). The rate of food expenditures ranges between 30 and over 50%. The figures are three to five times as high as in EU15. Food security and food prices have a great social impact. Therefore, it is a very delicate matter to raise agricultural product prices to a level which would compensate the rising production costs. Only few countries show substantial agricultural exports (over 20% of total exports in Hungary and Bulgaria). In general, the expenditures for agricultural imports exceed the revenues from agricultural exports. Agricultural policies focus on stimulating production for domestic supply and exports while keeping food prices low through subsidies and import regulations.

CES agriculture remains in a difficult condition

This statement refers in particular to the second group of the ten CES but holds true to certain degree for the other CES. The main difficulties hampering the agricultural development are: (1) The process of restructuring the agricultural sector remains unfinished as property rights on land and related land reforms are not settled yet; the legal status of many farms remains unstable, in particular of the many cooperative

farms; the agricultural credit system and the whole infrastructure serving the agricultural sector is still weak and underdeveloped. (2) The majority of agricultural enterprises are economically weak and lack of capital. They are left with run-down buildings, old machinery and equipment, without appropriate livestock, and with exhausted land of low soil fertility. (3) There is a serious shortage of well-trained farm and business managers; cadres from the former structures occupy many leading positions without appropriate qualification. (4) Especially serious problems family farms encounter which came into being by dissolving large socialist farms. They hardly can find investment capital at reasonable conditions and funds for buying means of production; thus, they work hard but with low productivity.

2.2 Challenges and Responses in Region II agriculture

In principle, the managers of agricultural units in CES are challenged by the same problems as the managers in EU. But they have to fulfill their managerial tasks under more difficult economic and technical conditions and without substantial public support. Thus, hard work of many years will be necessary for bringing the farms and firms up to Western standards. Many managers can benefit from suitable agrarian structures characterized by big shares (up to 81%) of land cultivated by large farms. Production figures of 1994 indicate an up-ward trend in crop and animal production after declines of 10 to 30% since 1990. The EU study sees the possibility that the CES will regain the 1989 productivity levels in year 2000. That will lead not only to self-sufficiency in main agricultural products but also to substantial surpluses of cereals, oil-seeds, milk, and meat. Then, competitiveness in the international markets will become the decisive factor for future development and success.

Against this background, the main management challenges in CES agriculture may be seen in the following tasks:

- (1) A stable institutional foundation to the managed unit has to be ensured, which is indispensable for stabilizing development, for planning investments, and for linking the farms and firms with effective credit, extension and information service systems.
- (2) To elaborate feasible and economical production, financing and marketing programs, fitted to the local conditions, open for further adjustments, and making best use of the resources available. Lack of funds for purchasing means like fertilizers, feedstuffs, and machinery must not curb production and profitability.
- (3) In the absence of qualified public systems private manpower development will be a managerial task of high importance. The gaps in agricultural training and extension must be filled through private initiatives, such as hired individual or group consultancies of professional specialists, and through organizing extension and training programs for managers and technicians as well as administrators.

3. Challenges in Region III: The European Countries of the Former Soviet Union (FSU)

Four countries of FSU are European: Belarus, Moldova, Russian Federation (RF), and Ukraine. They all are lagging behind in transformation in comparison to CES, but show essential differences: Belarus sticks still to the old socialist system and does not even change the names of the former sovchos and kolchos system whilst the other countries took resolute actions for transformation. This paper will concentrate on Russian Federation (RF), only. It is the most important country in Eastern Europe, and what will be said about the RF holds on principle true also for the other countries of the region.

3.1 Situation in the RF Agriculture

The problems agricultural managers face in Russia are essentially the same as in CES, but larger in dimension and more severe. Not the least, the size of the territory makes it so difficult to establish new institutional orders and to influence people's behavior. Thousands of presidential decrees and laws have been issued without producing the expected effects. Personal experiences lead to believe that institutional deficits pose the most serious problems for stable economic development in RF. This view forms the basis also for the following *statements*:

Political conditions in RF are still unstable

In RF, great efforts have been made in transforming the country to a democratic, social and market-oriented economic system. But there are strong opposing forces which impede a straight-forward political development.. There is no power structure which can enforce the observance of the decrees in the vast country. In addition, people in the oblasts now react adversely to central jurisdiction and administration because they don't want to be subject to „central commands“ again. As a result, the transformation process in the RF is proceeding slowly, and it remains uncertain when the phase of transition will finally end.

The main problems of RF are caused by institutional deficiencies

In a very large country like RF effective institutions are essential for a successful economic and social development. But the largest set of institutions remains of little value if they don't guide individual behavior and actions. This basic knowledge has been badly neglected by the reform politician as well as - which is still worse - by many foreign consultants. RF needs not only a stable political situation, but also an educational system which imparts the functions of institutions to the people and supports the country's reconstruction through changes in mentality and behavior.

RF agriculture shows still negative trends in production and economic terms

Production figures display that in RF agricultural production decreased by almost 50% from 1990 to 1994, and is still declining. As to wheat and meat production the country might reach „the bottom of the valley“ between 2000 and 2005 (von Braun 1996). Besides institutional deficits such as half-hearted support to privatization or unsettled property rights on land, agricultural production is curbed by factors, such as an unsatisfactory provision of capital for replacing worn-out machinery and purchasing means of production, lacking infrastructure and agricultural services. The magnitude of the respective problems demonstrated by estimates which put the harvest and post-harvest losses of grain above 25%.

Administrative large-scale farming competes with individual small-scale farming

Derived from the former socialist agriculture the agrarian structure in RF is characterized by a distinct bi-modal distribution of farm sizes: There is a large-scale farming sector, still heavily influenced by and depending on state interventions and subsidies, and a small-scale farming sector consisting of fully privatized production on tiny plots and gardens besides a growing number of family farms. The first sector counts 27 000 units with an average size of 5 780 ha, cultivating 75% of the agricultural land, employing 6.4 Mio persons, using more than 80% of the tractors, fertilizers and other commercial inputs, but supplying only 63 % and 57 % of national plant and animal production resp.. The second sector counts 280 000 private farms and 39 000 small household plots and collective gardens. It uses less than 10 % of the total agricultural land and commercial inputs but contributes 40 and 47 % to the national crop and animal production resp.; and its shares is still on increase.

Both farming sectors suffer from typical short-comings

Although production on small plots and with few livestock is considered to be more costly than modern large-scale production, low direct costs allowed small producers to find satisfactory returns and profits by direct marketing on local markets. Thus, this sector was little affected by the break-down of the centralized marketing and financing systems in RF after 1990. However, small producers meet growing difficulties when they extend production beyond the demand of local markets. In general, they become dependent on marketing and procurement through nearby large farms or combinates. In contrast, the most serious problems for enterprises of the large-scale sector derive from lack of funds. As product prices are fixed on low levels and most large farms employ still up to 600 and more workers, they are - despite of

low wages - very short of financial means for investments and for buying seeds, fertilizers, pesticides, fuel, machinery, spare-parts and concentrates.

Family farms form a special case in RF

The individual private farms had been the main addressees of western consultants and politicians. They cultivated the idea of a strong segment of „western type“ families farms as a favorable option for restructuring Russian agriculture. But soon it became evident that family farms won't spread widely because of restricted land availability and shortage of capital. Firstly, the new „land-holders“, the members of the privatized sovchozes and kolchozes, opposed to land distribution, and by a special law it was stipulated that only 10 % of the land of the former socialist farms have to be made available for allocation to private farms. As a result, the farms sizes remained small (in 1994 the average farm size was 36,2 ha). and are tied by this land regulation. Secondly, most family farms dispose neither of own monetary reserves nor of appropriate credits. Thus they cannot buy the necessary means of production for raising productivity and yields to an economical levels.

RF agricultural policy has to focus on food supply and food security

Despite of a rich endowment with arable land (0,71 ha/cap.) RF agriculture has difficulties to ensure stable food supply at reasonable prices. Sky-rocketing inflation rates during the first years of transition annihilated the consumers' purchasing power which in turn lead to a drastic drop of food demand and agricultural product prices. As to cereals the annual consumption went down from 120 Mio t (1990) to almost 80 Mio t (1995), and the price decreased to 35 % and 50 % of the world market level in 1992/93 and 1995/96, resp. These changes forced the large farms to practice an extreme austerity management which resulted in suspending wage payment for many months, and still worse, in drastic cuts in utilizing productive means of production (71 % of sown land were not fertilized at all in 1994). Consequently, the yields in crop and animal production fell back and resulted in a supply gap of over 10 Mio t of cereals. When the economy recovers and food demand returns to its former level an annual consumption of over 100 Mio t of cereals is expected. Then, especially the large-scale farming sector is expected to supply 40 to 50% more grain than it does today.

3.2 Challenges and perspectives in RF agriculture

The following challenges result from the fore-mentioned statements:

(1) In the large-scale farming sector the units have to undergo a deep transformation process. Many units kept the former structures and managements, and therefore also

all of the former problems (high numbers of workers, inefficient management, out-dated production plans etc.).

(2) Qualified managers are not readily available. The farms and firms themselves shall have to engage in public and private programs for respective training and consultancy. Farm managers have to be introduced to modern management systems and tools such as modern accounting concepts and comprehensive financial and materials records, electronic plot charts and soil fertility programs, herd management and feed optimizing programs, records on labor and machinery employment and on maintenance and operating costs.

(3) Special attention will have to be given to land registration and clarification of land property and users' rights. Even though, the land market was liberalized in 1993 (i.e. the state monopoly has been removed) and the Civil Code of Russia (as of Jan.1,1995) has formulated the property rights on land, there are many unfinished legal cases and uncertain situations which impede structural growth and economic development.

(4) The large numbers of employees of the large farms have to be reduced to tolerable levels. Based on experiences from transforming the former GDR agriculture, one can assume that the actual production programs in RF could be accomplished with less than 25% of the actual labor force. But as almost no outside jobs exist in rural areas, finding or generating additional rural jobs remains a genuine task for the managers of large farms.

(5) Managers must find means and ways to realize well-planned investment programs despite of insufficient public support. Just 15% of the subsidies go to long term investments in farm facilities and infrastructure. During the last years, RF government preferred agricultural policy measures which produce short term effects, such as guaranteed minimum prices for major products, price subsidies for farm inputs, and waiving income tax on agricultural production and processing.

(6) Above all, the agricultural managers will urgently need support through internal and external information systems which don't exist in RF yet. It seems mandatory that governmental institutions (universities, research institutes, extension services) and private farms and entrepreneurs join their efforts to establish efficient and reliable agricultural information systems. Modern electronic media provide powerful and effective possibilities to create nation-wide and regional information systems.

(7) In summary, the analysis of the Russian agricultural situation provoked the fear that it will take decades till the institutional, human, financial, and physical conditions do provide a solid base for sound economic development, in both, the small-scale and the large-scale agricultural sector. In the near future most likely small-scale agriculture will make greater strides despite of obstacles and factual opposition because it is less adversely affected by the institutional and financial deficits than the large-scale farming sector. In the absence of a coherent and strategic

agricultural policy and development programs it is not foreseeable in which period of time, if at all, the latter can be revitalized and can utilize its large agricultural production potentials. In any case farm managers will have to rely almost entirely on their own potentials and capacities.

5. Summary and Conclusions

After elaborating on the management challenges in the three regions of Europe and in summarizing the findings one arrives at following conclusions:

(1) In the EU15 countries, basic challenges to management arise from uncertainties caused by forming the Monetary Union and the East Enlargement. Beyond those, reforms in EU agricultural policy, world trade negotiations, and growing influence of ecological and environmental regulations will impair the economic conditions under which the enterprises will have to stand internal European and international competition. Increased social and economic pressure will force to drastic structural, organizational, and technical adjustments.

(2) In the EU-associated countries of Central Europe the main challenges to managers lie in preparing the farms and firms institutionally, organizationally, technically, and economically for standing the tough competition on European and international markets under the conditions of the EU, despite of institutional deficits and lacking capital and funds for modernizing the enterprises.

(3) In the Eastern European countries, the basic challenges agricultural managers face consist in completing the structural reforms and establishing a sound institutional basis for the firms, especially in the large-scale farming sector. Although this is primarily a governmental task, each single enterprise will have to develop its appropriate structure on which organizational and technical progress can be based. Unstable political and legal conditions will hamper the development process and even put it at risk.

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