

COLLECTIVE AND STATE ENTERPRISES IN AGRICULTURE

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Summary

Collective enterprises in agriculture are of importance both historically, and as a source of organizational forms that may contribute to solving current social and economic problems. Worldwide, the individual family farm dominates in terms of numbers, but not so much in terms of cultivated area, because collective operations are usually larger than individual farms. Forms of cooperation between individual farms differ, and can range from the common use of production factors to the fusion of entire enterprises. In addition, organizational forms undergo constant change over time, so that phases of collectivization and privatization alternate.

1. Introduction

In this article, collective and state enterprises are described and discussed in their historical context as important organizational forms in the field of agriculture. Such models are in a state of continuous flux; their development is by no means completed, rather it continues in response to technical, social and economic changes. The three most important factors currently affecting the worldwide development of agricultural enterprises are: (a) the collapse of the Eastern Bloc; (b) the opening and globalization of the marketplace; and (c) technical progress with its resultant continuing pressures to conform and reorganize, particularly in the field of agriculture. At the end of the

twentieth century, these three factors are causing great changes in the world economy in general, and in the forms of agricultural enterprises in particular.

A continuing worldwide decrease in the prices paid for raw materials, combined with the lower profitability of traditional means of production, is endangering the existence of many farms. In response to these pressures, organizational changes are taking place, including modification of the legal form and size of agricultural enterprises.

The agricultural economies of Canada and South Africa could be cited as examples of the opening of global markets: in the 1990s—both were forced to adapt their production to competition on the world market when existing subsidies were discontinued. Other countries, such as Australia and New Zealand, have been attuned to world market conditions for some time. Globalization means the increasing effect of international competition on the national economy (Bonß 1999, page 56).

Collective and cooperative, common and state enterprises—how did they arise, how important are they, how will they develop—these are the questions to be discussed in this article. In addition, the motives for founding collective enterprises are indicated, along with the problems inherent in the form, and the forces leading to further changes in their legal forms. A classification system with examples of organizational forms from various countries is followed by a discussion of factors leading to their genesis, their further development and present status, advantages and disadvantages, and possible future trends.

2. Definitions and Delimitation

In the article, primary consideration is to be given to the forms and structures of common (collective and cooperative) and state agricultural enterprises. To facilitate understanding and delimitation, reference will be made to original “autochthonous” forms, family farms, and old socialist organizational forms, which meanwhile have developed into new forms of enterprise. Two concepts need to be defined in order to delimit the subject under investigation: “enterprises in agriculture,” on the one hand, and “collective (or common) and state enterprises,” on the other.

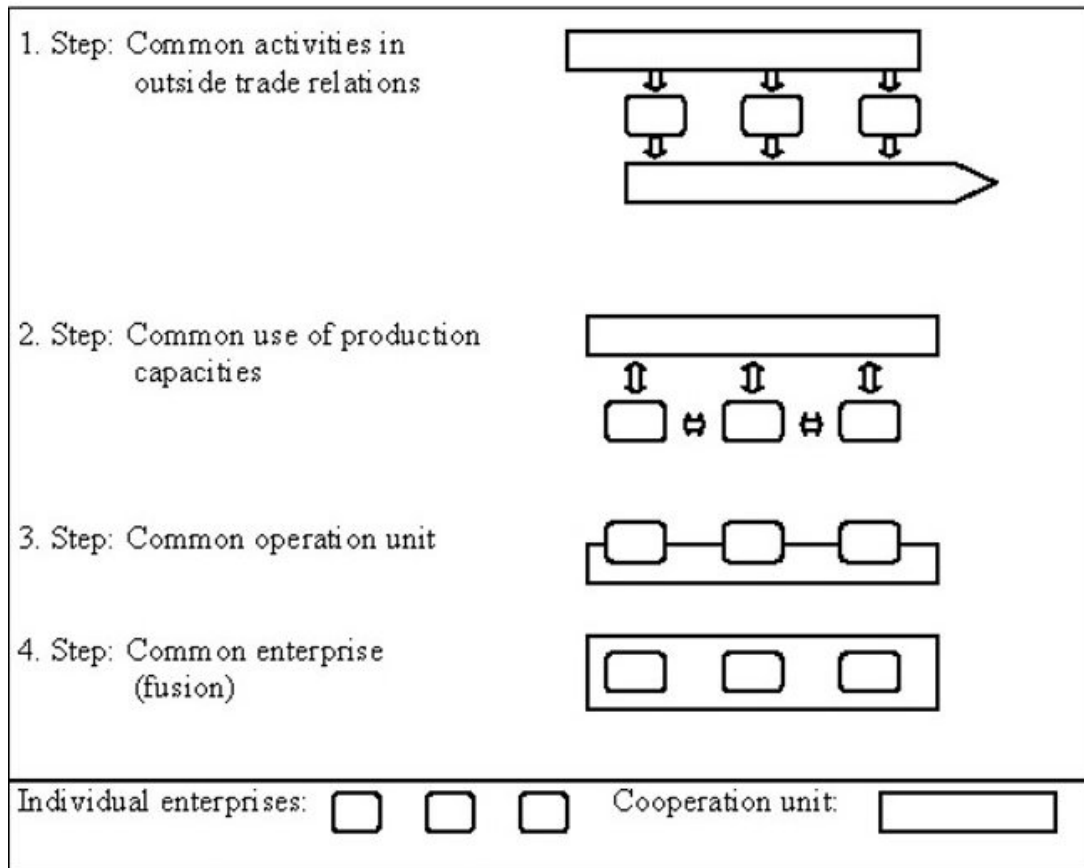
2.1 Enterprises in Agriculture

This term refers primarily to professional agricultural activity oriented towards economic goals, in contrast to subsistence farming, farming to supply individual food supplies, and hobby farming. In this context, tribal or nomadic forms of agricultural enterprise are purely of historical interest. In the broader sense of the term, agricultural enterprises include all enterprises concerned with the production, processing, and marketing of agricultural products. Thus they can be involved in forward or backward linkages, such as production and preparatory work, as well as in the processing and marketing of products or in agricultural finance.

In a more narrowly defined sense of the term, agricultural enterprises are characterized by being principally concerned with plant and animal production. The border between the broader and narrower definitions is fluid, however, as there are enterprises that

undertake and carry out a broad range of tasks, which go far beyond their traditional areas of competence. Examples include services directly connected with plant and animal production, such as machinery pools and service stations, as well as the processing and marketing of agricultural products. This article treats enterprises in agriculture in the narrower sense of the term, as marketing enterprises are treated in a separate article (see *Marketing Organizations*).

2.2 Common and State Enterprises



Source: Doluschitz 1997, p. 49; modified.

Figure 1. Stages of cooperation among agricultural enterprises

Basically, commercial agricultural enterprises can be divided into private and state enterprises. In the private sector, distinctions can be made between family firms, partnerships, and larger collective forms such as cooperatives. However, there are no sharply defined boundaries between the various organizational forms or the degree of cooperation involved in agricultural enterprises. Starting from an initial independent individual enterprise, the relationship intensifies according to the level of cooperation. Four stages are described here. The first step is characterized by common activities relative to outside trade, for example in combined purchases of production factors and marketing products using cooperative marketing techniques (see Figure 1). At the second stage, farms combine use of their production facilities. A widespread example is the common use of machinery pools. A further step might be a common operation unit, for example a breeding unit, which provides replacements for the downstream

individual fattening operations. As such cooperative efforts increase, less and less income is left for the remaining rudimentary farms, as use of the remaining production facilities becomes increasingly inefficient. Therefore, it is only a small step to stage four, which is the fusion of the individual farms to a single new enterprise.

The following criteria are usually used to evaluate the various forms of enterprises: founding principles and provisions for dissolution of the firm, leadership and decision-making capabilities, working relationships, forms of ownership, financing possibilities, profit distribution and liability, and disclosure obligations. A detailed comparison of the various types of enterprises is beyond the scope of this study, as it would involve extensive consideration of legal formulations, which differ from country to country. Here a general evaluation must suffice.

Family enterprises generally are characterized by having ownership and liability rest in the hands of individuals—usually the family council—who also direct the ongoing affairs. This does not necessarily imply that all labor must be done by family members. Common enterprises are voluntary combinations of several individuals or individual enterprises.

State enterprises, on the other hand, are founded and directed by state authority; usually ownership and liability also rest with the state. After the end of the socialist era, the state enterprises were privatized and the remaining state farms generally are charged with particular tasks, such as research, training or nature conservancy.

Because of their many forms, it is difficult to undertake a detailed delineation of collective enterprises. In the following, a distinction is made between smaller collectives, such as partnerships, and larger collectives, such as cooperatives. Collectives can basically be defined as a number of fundamentally equal persons who are united by common goals, common work and common organization of this work. If a collective forms the institutional basis of an enterprise, then this may be considered a collective enterprise. The fundamental feature is the existence of a body in which all members have an equal voice in the division of rights and duties within the self-created organizational framework of the enterprise. Generally this is a members' meeting.

Individual countries have legal requirements concerning the foundation and operation of collective enterprises, such as cooperative legislation, which prescribes the legal status and its implementation. Ever since the beginning of the cooperative movement about 150 years ago, this framework has been used by many enterprises, and has gone forth from the German-speaking realm into the entire world. Most recently, for example, the German *Genossenschafts- und Raiffeisenverband* (cooperatives organization) gave the Russian government advice and support on the formulation of their own cooperative legislation.

Cooperatives directly concerned with agricultural production are known as production cooperatives; these are of particular interest here. Very few cooperatives are pure agricultural enterprises, i.e., production cooperatives, in the narrower sense, as they are primarily concerned with forward and backward linkages. A separate article (see *Marketing Organizations*) is devoted to these cooperatives or marketing organizations.

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Biographical Sketch

Clemens Fuchs, born 16. August 1959 in Ellwangen/Jagst (Germany) and grown up on a farm, studied Agricultural Sciences at the University of Stuttgart-Hohenheim and graduated with Diploma (1983) and PhD (1988). He started as a teacher at the Academy for Agriculture in Nürtingen (1987-1989), was a visiting scholar at Michigan State University (1989-1990) and then became a research assistant at the University of Stuttgart-Hohenheim (1990-1995). In 1995 to 1996 he was leader of the project “Restructuring of Large Agricultural Farms in the Region of Vladimir, Russia” and since 1996 professor for Farm Management at the University of Applied Sciences in Neubrandenburg. Other activities: Delegated National Expert at the European Commission (2001-2002).