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## **Farming strategies regarding “social responsibility” in the Russian agricultural sector**

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### **ABSTRACT**

In this article, we discuss the fact that the social role Russian farms have been developing since 1991 has to be considered as a twofold strategy. The first goal is to expand the activities of some institutionally selected enterprises and the second is to reproduce some “communities”. The observation highlights a specific feature: there are several “non-economic” functions carried out by farms. This analysis leads to the establishment of a link between the social role of farms and the existence of opportunities offered by the economic, political and social environment. Then, the concept of “productive configuration” is applied to study game plans developed by several actors in the Orel *Oblast'* and to identify four strategies organizing the relationship between food production and social responsibility, each configuration showing an institutional arrangement to secure the survival of farms in a highly competitive context.

**Keywords:** Productive Configuration, Corporate Social Responsibility, Typology of Farms, Agroholding in Russia.

**JEL Classification:** L25, L51, O17, Q13, Q18

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## Introduction

The concept of “corporate social responsibility” (CSR) is now widespread in the economic literature. In an article published in 2006, Porter and Kramer demonstrate that prevailing approaches to CSR are generally disconnected from the business and strategy of firms. In fact, CSR is mostly considered as a cosmetic response when local problems appear, due to the impact of a firm on society or its environment. In other words, it is more or less an aggregation of “anecdotes about uncoordinated initiatives to demonstrate a company's social sensitivity” (Porter and Kramer 2006: 3). As Porter and Kramer did, we have analyzed the social responsibility behavior of farms from a more strategic point of view. Yet in most studies the non-commercial production largely appears as a public policy in support of agriculture rather than strategic private initiatives arising from farm management. For instance, Amelina (2000) argues that the persistence of farms' social responsibility is only due to politicians' objective of winning votes. In this article we would like to suggest another perspective in which social role appears as a strategy of farms themselves. Therefore, we propose a definition of the CSR that is relatively close to the European Commission's one. The CSR appears as “benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, and innovation capacity” (European Commission 2011: 3). This strategic approach to CSR is important for the competitiveness of enterprises<sup>2</sup>.

To analyze corporate social responsibility as a strategic farm behavior, we use an industrial-organization approach in which we consider that the actor has a specific rational industry-oriented frame of reference. Within it, an autonomous actor is able to reach a compromise between his own interests and the interests of other actors in a community. We define a community as an institution that stands between individuals and the ‘mesosystem’ (De Bandt 1991) and that encourages group members to negotiate and reach a compromise, in order to preserve community. The community has an impact on the nature of the supply chain that integrates both questions of the marketable goods' “production” (*commercial relationship*) and of the community members' ‘reproduction’ (*patrimonial relationship*), which can occur through the financing of collective goods by the farms. To analyze this composite field, we have to consider plurality as a basic datum of reality that is to be studied and understood. The general idea defended by those working on the “patrimonial relationship” concept (Barthelemy and Nieddu 2007) is that the acceptance of actor's multiple rationalities does not lead to the same understanding of problems as the approach focused on a single rationality. The standard market analysis of the social good production issue endows territories

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<sup>2</sup> We return to Freeman's (1984) vision of the corporate social responsibility.

with specific identities by associating those territories with specific functions (cultural heritage, social good production) and delimits groups' actions (firms' action, public organizations' action, etc.) at different scales by reducing public good production to public organization production. On the contrary, the “patrimonial” approach analyzes formation of a general-interest rule (for communities) corresponding to the good required (social or commercial) saying that market relations will be legitimate but also that non-commercial relations may continue to exist in order to preserve the cultural or social good. Indeed, the creation of an identity and the conservation of a heritage are actions not naturally within the ambit of market relations, but that require work of production and allocation of goods. The production of these goods is not entrusted *a priori* to a specific actor (public for instance), but is rather the result of the institutional arrangement between different actors (private and public), all embedded in both commercial and patrimonial relationships. To describe the form taken by this institutional arrangement and its consequences on the supply chain management, we will use the terminology of “productive configuration” which comes from the French *régulation* theory<sup>3</sup>. A productive configuration is a social framework that organizes the coherence of some institutional elements (such as laws, political choices, territorial issues, market rules, etc.) with the diversity of interests of actors into a community. It is a particular economic system in which capital and heritage expand at a sectoral level through production, circulation, consumption, and distribution for a period of time, with some degree of stability. We will demonstrate in this article that due to the current period of transition in the Russian agricultural sector, there is competition between different patterns of “productive configurations” in the area of the Orel *Oblast*<sup>4</sup>. As a result, corporate social role takes different levels and different productive configurations maintain different types of large corporate farms. Some of the corporate farms play a social role whereas others do not. With this approach in mind, we will demonstrate that the

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<sup>3</sup> We embrace a French *régulation* school framework. The concept of *régulation* does not mean idea of juridico-political regulation but could be better translated as regularization or normalization. French work on ‘*régulation*’ arose in opposition to standard economists’ obsession with the market-driven tendency towards general equilibrium (Boyer 1990; Aglietta 1979). The regulation theorists have an ‘integral’ conception of the economics, *i.e.*, an interest for socially embedded, socially regularized nature of economic activities, organisations and institutions. Against structuralist reduction of agents to the role of mere supports of capitalist reproduction, the regulation theorists took for granted the key role of communities conflicts in shaping the dynamic of capitalism accumulation. See Jessop (1990) for English description of the *régulation* school theory.

<sup>4</sup> It is located in the south western part of the Central Federal District. Most of the *Oblast*'s agricultural land is used for plant cultivation. Grain growing is very important, with winter wheat and rye being the main crops. Buckwheat, oats, barley, and potatoes are also grown, and sugar beets are in great demand. The area planted in feed grains is increasing due to the expansion of livestock farming, which includes beef and dairy cattle farming, pig farming, sheep farming for meat and wool, poultry farming, and horse breeding.

need of providing community vitality prompts authorities to more subsidize the farms that also play a social role.

In the first part of this article, we point out that corporate social responsibility is a stylized fact of the Russian agricultural sector. We define a stylized fact as a recurrent observation on which the analyst focuses to investigate an economic issue. We will see that the corporate social responsibility in Russian agriculture takes various forms according to the farms' characteristics. Then, we focus on the corporate social role phenomenon itself. We assume that the social role played by many farms is the consequence of some compromises that can help us to determine the process of transition. In the second section, we demonstrate that through a *régulation* process, corporate social role helps to preserve communities of interest and to improve the business activity of farms.

### **The social role of Russian farms**

During the Soviet period, collective farms acted not only as production units but also as social institutions, regulating a significant part of everyday life in the villages. Kolkhozes (collective farms) as well as sovkhoses (state farms)<sup>5</sup> managed a lot of collective goods. For instance, they managed primary school, health center, road, etc. Furthermore, collective farms were under the control of the plants which bought food production at a low price, generating chronic deficits in the balance of the farms. The economic and social reforms conducted at the beginning of 90s, aimed at transferring these prerogatives to the local administration. The goal was to establish capitalist farms in the post-Soviet Russian countryside. Yet, year after year, geographers, political scientists and economists observed that this transfer did not succeed.

#### *Corporate social role as a stylized fact*

We identified three explanations for this situation in the economic literature. Most economists put forward reasoning that reforms have not been correctly implemented; the consequence being the maintaining of barriers to entry that prevent individual farms - considered to be much more efficient - from developing (Brooks and Lerman 1994 ; Brooks et al. 1996; Epstein and Siemer 1998; Kamalyan et al. 1998; Lerman 1997, 2001; Serova and Shick 2005). These barriers can originate from: inefficient economic rules, politicians' choices to protect former collective farms from bankruptcy (Amelina 2000) and/or from the cultural block of the rural population. Secondly, geographers such as Pallot and Nefedeva (2007) support the idea that the preservation of inefficient activities of farmers is

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<sup>5</sup> With the household plots, the collective farms were the unique source of food production in USSR.

linked with a rational behavior of the rural population, anticipating the degradation of their conditions of life. And a third possible hypothesis is given by political scientists as O'Brien and Wegren (2002), Wegren (2005) who consider that even if traditional social prerogatives of agricultural enterprises do not disappear, the farms transformed themselves into more capitalist farms, which are underestimated. While we do note some differences in our own explanation of why farmers have continued to provide extended packages of social services, according to most researchers thus far, this role has remained after transition.

*Farm social role characteristics and their economic consequences*

Nowadays, one of the specificity of Russian farms is their role in providing similar social services for populations as kolkhozes and sovkhoses did in their time. The choice of maintaining social role is widespread among farmers and does not depend on the size of the farm, which is why it needs to be specified for each type of farm.

For instance, Ryl'ko et al. (2008: 99) point out the fact that one of the general patterns observed in the emergence of agrohholdings in Russia is that "some firms have attempted to provide extended packages of social services previously offered by collectives". In the same time, Ryl'ko et al. (2008) do not consider that these new operators have an irrational behavior. Then, the main reason for entering the agricultural sector given by the operators is their attempt to make profit. Neither do O'Brien et al. (2004) consider that these objectives collide. In their opinion, the search for profit combined with the attempt to provide social services are the result of a hybridization process. The farms try to enter the market economy system, but their need for political or economical support leads them to reach a compromise between their interests and those of the rural population.

As far as individual farms are concerned, mainstream economists consider that they are more productive than corporate farms due to the absence of economies of scale in the agricultural sector. However, average labor productivity in Russia is lower in the individual farms than in corporate farms (see Lerman and Schreinemachers 2005; Liefert et al. 2005; Macours and Swinnen 2005). For Bogdanovskii (2005) this situation is the consequence of the absorption of the full impact of the lack of labor component in the individual sector. Swinnen et al. (2000) go further and draw a parallel between the over-employment phenomenon in individual farms and the decrease in unemployment subsidies in various Eastern European countries. Moreover, O'Brien et al. (1998) have demonstrated that the more the individual farms are able to absorb the impact of the missing labor components, the more the corporate farms transfer their employees in the individual sector. When this is not the case, the transfer does not happen. Moreover, Pallot and Nefedova (2007) have demonstrated that individual farmers

also fulfill a social function. For instance, they give a part of their production to the rural population.

Then, we observed that both individual and corporate farms play social role. However, this occurs in different ways that do not have the same economic consequences. Corporate farms continue to make profit as well as fulfilling a need for social services whereas social role has unfavorable consequences on individual farms and their productivity. Yet both types of farms still exist. We will now study the institutional framework developed by the farms to maintain their position in a competitive context. We will demonstrate that the form social role takes emerges from compromises between farms and communities. Then we will show how, more than a consequence, corporate social role can be understood as differentiation or complement strategies in the development of farm activities and in the reproduction of communities of interest by the means of four different productive configurations.

### **Social role as farmers' strategies to develop activities and to reproduce communities**

We identified four 'productive configurations' in the *régulation* of the agricultural sector of the Orel *Oblast'*. The first one was developed by the Orel local government and emphasizes the food security and the zoning of the region by controlling some corporate farms and some individual farmers. The second productive configuration was developed by new operators. In this configuration two elements are linked together: the financing of some collective goods (primary schools, housing, etc) by the farmers in return for the favorable regulation of the food market. The third 'productive configuration' allows the development of two types of farms: independent corporate farms and household plots. The fourth productive configuration helps to expand the activity of individual farmers: they sign contracts with '*speculant*' (middlemen) to guarantee outlets for their products, avoiding the competition with corporate farms.

### *The regional agroholding*

The administration of Orel *Oblast'* created in 1994 one of the first agroholdings<sup>6</sup> in Russia, which subsequently disappeared in 2010<sup>7</sup>. However, it is interesting to understand how it was organized. *Orlovskaya Niva* was structured as a whole supply chain, integrating the entire production chain from basic agricultural products to foodstuffs. Therefore the organization integrated different kinds of firms, from corporate farms to food processing plants. The official goal of this organization was to reduce the bankruptcy risk of ex-kolkhozes and ex-sovkhozes. At the same time, it was playing a role in the food security of the region. Indeed, *Orlovskaya Niva* used to produce all kinds of foodstuffs consumed by Orel citizen. *Orlovskaya Niva* also integrated physical markets to ensure outlets. Furthermore, the managers of the agroholding had signed contracts with some household plots owners and some individual farmers. These farmers helped processing plants to secure their inputs. In return, they received subsidies from the public administration to build their housing. *Orlovskaya Niva* performed a social role, which gave strong reasons for farmers to become part of the agroholding. Access to housing appears to be a characteristic of agroholdings' social role. In the case of Orel, this non-market welfare service appears as a means to secure the food supply for the regional agroholding.

We can establish two kinds of relationship between the actors for this productive configuration. The *commercial relationship*, in which the actors are placed, obliges individual farmers to supply foodstuffs at a non-market price while the *patrimonial relationship* induces *Orlovskaya Niva* to offer access to social goods.

### *A productive configuration of "private agroholdings"*

During our stay in Orel we conducted interviews with managers of Nobel-Oil, Eksima, Yunost and Moslovo, which are private agroholdings set up in this *Oblast'*. Interviews enabled us to learn that these structures adopted a sectoral integration framework, from agricultural raw materials to the retail food market.

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<sup>6</sup> Initial analysis of the agroholdings was proposed by Ryl'ko and Jolly (2005). They defined agroholdings as commercial farms controlled by entities whose core business is outside agricultural sector. But Wandel (2007) points out the fact that agroholdings can also be under the control of a regional authority. In this article we define an agroholding as an organization owned by public or private investors whose core business is outside agricultural sector in the aim to integrated farms into a supply chain.

<sup>7</sup> We consider that the bankruptcy of the regional agroholding is due to a corruption mechanism developed at the regional level. The department of agriculture of the Orel *Oblast'* allowed farms to access to credits and received a substantial part of farms' benefits in return. However, before the bankruptcy, the department of agriculture checked that a substantial part of the farms would be sold to new operators that would take into account some preoccupations of the local government (especially in term of regional food security).

Their food production is more specialised than the public agroholding's production. The table 1 (in Appendix) proposes a summary of the private agroholdings listed in the Orel *Oblast'* in 2008, according to information gathered from our interviews and from extensive data of the agricultural department of the regional administration.

The private agroholdings occupy an important land area in the region of Orel. In 2008, private agroholdings owned 58 corporate farms, representing approximately 20 % of the total of the corporate farms in this region. These 58 corporate farms occupied 41 % of the agricultural land area. Moreover, the private agroholdings invested R 21,4 billion (approximately € 630 million) in modernizing farms. We chose to describe how one of these agroholdings in particular works: *Eksima-Agro*.

Eksima-Agro is an agroholding owned by Soyuzagranpostavka, a company specialized in the international meat trade. During the Soviet period this company guaranteed most of the meat supplies of the USSR. In 1992, Soyuzagranpostavka created Eksima with the aim of pursuing its trade activity. This allowed it to take part in the federal initiatives of foodstuff deliveries for the needs of the Moscow administration. Eksima works, for this reason, with important Russian banks such as Rossel'khozBank, GaspromBank and Sberbank. Furthermore, Eksima bought the most important delicatessen plant of Moscow (Mikoyan, 20 % of the Moscow delicatessen market) and supplied it thanks to its international trade activity. In 2006, Eksima modified its strategy by taking control of four corporate farms located in Orel *Oblast'*. These farms - specialized in pig breeding - have allowed Eksima to supply its delicatessen plant since then. In 2009, the agroholding encompassed twenty corporate farms or factories and about 10,000 employees. The pig population was 70,000 heads and the agroholding used 46,000 hectares (113,700 acres) of land, among which 36,000 hectares (89,000 acres) were exploited to provide feeding for the pig breeding farms. During our interview, we asked Natalia Viktorovna (the regional manager of Eksima-Agro) which part of the pig-feed was bought. She answered she bought 100 % of the feed from corporate farms owned by Eksima and that the agroholding set the prices factually lower than market prices<sup>8</sup>.

The feed production of the corporate farms (which was estimated at R 760 million in 2009 by the local manager of Eksima) aims at satisfying feed needs of the agroholding. The manager's comment on the feed-price formation proves that the contracts with the corporate farms are not signed in a competitive context. These non-market contracts correspond to the integration model developed by the agroholding. Furthermore, while from a legal point of view relations between the pig breeding factories and the 'Mikoyan' plant can be considered as business

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<sup>8</sup> Interview with Natalia Viktorovna, Orel *raion*, May 24, 2009.

connections of independent legal entities, they are not yet market based relations. The pig breeding factories sell their meat to a price determined beforehand by Eksima. The agroholding controls all the supply chain prices, from the feed prices to the delicatessen prices. The market is pushed to the level of a high value-added end product such as the delicatessen.

The vertical integration practiced by Eksima is the new organizational shape developed by most of the agroholdings we interviewed. It offers cost control over the whole supply chain and production system. Moreover, Table 1 reveals that these agroholdings specialize in high value-added activities which provide fast return on investment (ROI). They focus mainly on poultry/pig breeding and feed growing activities. The poultry and the pork meat are then pre-packaged in sealed containers before being sold in supermarkets.

The private agroholdings adopt a commercial trade strategy, in contrast to the public agroholding. Nevertheless, these firms supply and finance collective goods and welfare for their employees and for the inhabitants of the nearby villages. According to data obtained from an economist of the Orel *Oblast'*, Eksima spent R 75 million (€ 2.1 million) in housing, roads, gas networks and subsidies to public schools and care centers in the Olorvskii *Raion* in 2008. The company *Jupiter* (controlled by the OOO Omega Kompaniya, see Table 1) built houses and financed a playing field for the middle school of the village of Zlynski. In 2008, the firm spent R 400,000 (€ 10,000) on the acquisition of computers for the benefit of the same middle school.

These examples underline that the leaders of agroholdings agree to perform social responsibility for the benefit of the rural population. They are encouraged to do so by two main elements: incentives from the authorities and the fact that financing collective goods is a means to stimulate the productivity of their own employees. Social responsibility takes a specific form and seems essential to improve everyday living conditions, particularly in the countryside where the corporate farms are probably the only institutions able to finance such investments (Lefèvre 2003).

*A productive configuration framed by independent corporate farms and actors of the Food-processing industry (FPI)*

In 2008, thanks to extensive data gathering, we estimated the number of independent corporate farms in the *Orel Oblast'* to be 196, which is approximately 70 % of all the corporate farms in this region. We use the terminology of 'independent' to qualify corporate farms free from exclusive subordinate relationship with public or private agroholdings. As a consequence these farms have to find the means for financing their investments and to look for outlets by themselves. They have limited access to bank loans, and thus increased difficulty

in modernizing their equipment and expanding their activities in the value chain. As a result, the independent corporate farms prove to be dependent on the food-processing industry (for more description of the relationships between independent corporate farms and food-processing industry, see Ioffe and Nefedova 2001). The productive configuration set up by the independent corporate farms is made of contracts signed with FPI actors.

A representative case can be found with the company *Novosil'skoe* in the Orel *Oblast'*. This company has to look for its outlets by itself. In this context, Novosil'skoe signed a contract with a dairy factory in Tula, the administrative capital of a neighboring region of Orel. Novosil'skoe sells 90 % of its milk production to this factory. Moreover, the local household plots benefit from this commercial contract because the factory not only collects milk from the corporate farm but also the milk produced by the household plot owners.

This kind of productive configuration has been confirmed by interviews we had with thirty managers from the FPI at Prodexpo 2009 (a Moscow agro-industrial fair). This study allowed us to note that six FPIs specialized in dairy production got their supplies from independent Russian corporate farms. Other FPIs privileged import of foodstuffs (from Europe, the United States, the CIS, and South America). In the case of the ONO Lovosil'skoe, the contract signed with the Tula FPI is a yearly contract, which set the price of milk at R 8 per kilogram (*i.e.*, € 0.19 per Kilogram) for year 2009.

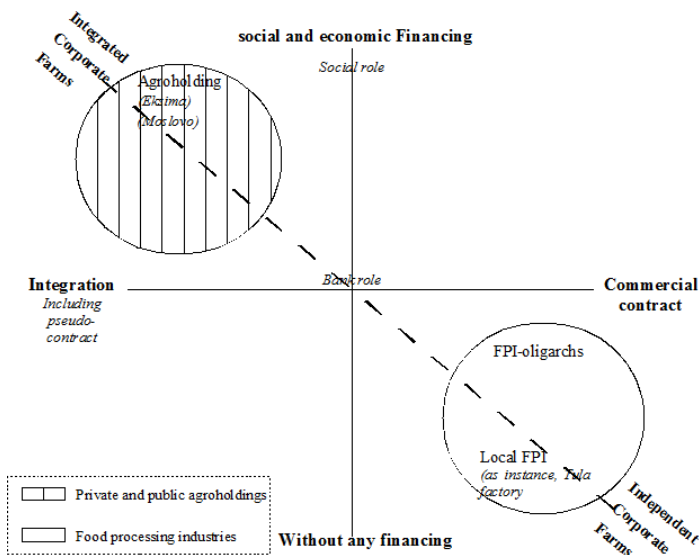
The contract with the factory is only a trade contract. However, it allows ONO Lovosil'skoe to have a *patrimonial relationship* with the owners of plots of land. Indeed, Lovosil'skoe gives the benefit of its commercial contract with the Tula factory to the household plot owners, enabling them to sell their production to the factory, while without the 918 tons of milk of the independent corporate farm, the factory would not come to take the milk of the very small producers. In fact, the ONO Lovosil'skoe obliges the factory to set a single price for the milk. We used the word of '*kryša*' (*kryša* means roof in Russian) to name the protective role played by the corporate farm for the household plot owners. This term makes reference, in the business field, to all the knowledge and the organizations which are able to ensure, secure and stabilize business environment in a particularly highly corrupted context.

Generally speaking, the corporate independent farms sell their outputs thanks to the FPIs. However, the latter concentrate on importing foreign products to get their supplies (especially for meat). In contrast to the private agroholdings behavior models, the Tula factory does not enter in a *patrimonial relationship* with the corporate independent farm. It is rather the independent corporate farm manager

who enters in *patrimonial relationship* with the household plot owners, by letting them benefit from its commercial contract with the factory.

**Box 1: Typology of the corporate farms according to their relationships with investors**

Through the productive configurations of both “private agroholdings” and “independent corporate farms – FPI”, we are able to give a representation of the transition of 90 % of the former kolkhozes and former sovkhozes of the Orel *Oblast'* (the remaining 10 % concern farms integrated into public agroholding or those we were not able to determine the nature of the subordination). The graph below represents the nature of the relationships between investors and corporate farms.



The X axis represents the nature of the contract signed between a farm and its investor/partner. When the commercial relationship is set within a hierarchical model (with acquisition of the share capital of the corporate farm by the investor/partner) we use the term “integration”. In association with this term, we use the term of ‘pseudo contract’ to name contracts between the integrated corporate farms and agroholding partners but at a price which is not market determined. On the other end of the axis we use the term ‘Commercial contract’ to characterize the commercial relationship between FPIs and independent corporate farms, based on market economy.

The Y axis characterizes the social and/or commercial commitments undertaken by the investor.

The graph underlines an important result of this article, which is the relationship that exists between the degree of integration and the nature of the social commitments undertaken by the oligarchs. In the Orel *Oblast'*, the takeover of the corporate farms by oligarchs led to the financing of collective goods.

*The productive configuration of individual farmers*

In the category of the individual farmers we include farmers who have a commercial activity apart from public or private agroholdings. It is difficult to

estimate the number of individual farmers in the Orel region. In fact, the official data records the number of individual farmers but do not specify which part of them chose to join agroholdings and which part stayed independent. However, the concentration of corporate farms in the hands of oligarchs has consequences on the strategic choices brought by the individual farms of Orel.

We interviewed twenty-five individual farmers with a clear commercial orientation. Among these twenty-five farms, only three sold their production themselves on a physical market where they have a dedicated stand. All others sold their production by means of middlemen; a choice that can be considered as an opportunity to get better market access without managing too many commercial relationships on their own. Middlemen are at the core of the commercial strategy for individual farmers. An economist from Orel we questioned on this subject made the following statements:

*I would like to discuss with you the specific situation of the individual farmers. During interviews with individual farmers, I asked them how they sold their produce. Most of farmers told me that they resorted to middlemen to sell their production. How do you explain the success of the middlemen?*

Usually, the middlemen are traders.

*But is there any link with an agroholding?*

No, not usually.

*Then, they are only...*

Parasites

*Why parasites?*

Because they buy products at a lower price than the market price. But I admit to being a little sarcastic. Middlemen come to farms and take the products to ensure they get sold. It is already a very good thing for the farmers, as they lack information concerning the outlet places while these middlemen know it. I cannot say that they are indeed parasites, because they play an important role: they put farmers' produce on an asymmetric market. If the farmers had enough knowledge about how the markets work, they would not need to resort to these middlemen. But, as it is not the case, the middlemen clear up the difficulty of the asymmetric information.

After the produce is sold to the middleman, individual farmers know nothing about the transformation process of their produce. We interpret this situation being both an institutional arrangement and a strategic choice of the individual farmers to avoid direct competition with other farmers. The individual farmers would not be able to look for outlets by themselves because of the competition with the

agroholdings, whose high level of production is far more interesting for buyers than the low ones of individual farms.

Yet, the individual farmers are not excluded from any patrimonial relationship. As shown above, they have over-employed labor force. They can because of their strategy of avoiding competition with other producers. Moreover, the contracts they have signed with the landowners from the local communities help them to produce. Indeed, they give part of their produce, collective goods and even employment to the landowners in return for the right to cultivate their parcels (Grouiez 2013). The commercial independence of the individual farmers depends on the patrimonial relationship they establish with the rural community.

### **The territorial *Régulation* of the four productive configurations**

The identification of the four productive configurations informs us that legal, economic and financial situations of farms are diversified in the Orel *Oblast'*. However, the integration of the farms into one of the four productive configurations never draws them completely away from market competition. Actually, the competition is generally transferred from the agricultural market to the food processing market. As a consequence, competition does not take place between farms themselves but between the four types of productive configurations. The lack of food specialization in the public agroholding; the choice of the private agroholdings and FPIs to produce similar foodstuffs (with fast return on investment) leads to high competition with advantages and drawbacks for each configuration. Only the strategy of the individual farms - consisting of selling to middlemen - seems to keep small producers away from this competition.

In this context, the specific characteristics regarding social responsibility for the public and private agroholdings generate an over-cost compared to the costs supported by the FPIs, the latter having only *commercial relationship* with the independent corporate farms and benefiting from 'subsidized' prices for imported goods (from Europe or the United States).

We are now going to describe the *régulation* as it has been developed in the Orel *Oblast'* to allow preservation and development of each of the four productive configurations. The *régulation* essentially concerns the meat market, and specifically the poultry and pork markets. Because poultry and pork benefit from fast return on investment, they constitute private agroholdings preferred produce. In 2003, the Russian Parliament passed a law establishing quotas and contingents for meat imports. This decision was due to the increase in these imports during the 1998 financial crisis, which was mainly caused by the FPIs in an attempt to reduce their foodstuff production costs.

On the contrary, Russian producers (particularly the leaders of the agroholdings) pushed the Russian government to take measures to protect the national market. That is why the *régulation* of the meat market has been set as a double protection: a system of quota on poultry imports since 2003 and a tariff contingent system for beef and pork since 2006. It is relevant to note that the production of private agroholdings principally consists of poultry, which explains in our opinion why the poultry market was the first market to benefit from a quota.

In the Orel region, the quota system also brought a new clean sheet in terms of food security policies. Carried by the devaluation of the Ruble which followed the 1998 crisis, the Orel regional administration knows how to take advantage of the renewed interest of the oligarchs in the agricultural sector and how to encourage new investments. Since 2003, the quota system has become an additional instrument in territorial promotion of farming activities. Table 2 reports the evolution of poultry production.

**Table 2: Poultry production in the Orel Oblast' (tons) according to the category of farms**

	2001	2002	2003	2004	2005	2006
Individual Farms	17	34	42	39	48	38
% of the regional production	0.33	0.48	0.44	0.36	0.34	0.28
Household plots	2,700	3,300	4,200	4,600	4,900	4,600
% of the regional production	52.77	46.91	43.56	42.05	34.88	33.73
(independent or integrated)						
Corporate farms	2,400	3,700	5,400	6,300	9,100	9,000
% of the regional production	46.9	52.6	56	57.59	64.78	65.99

Source: Rosstat (2007a: 22), Rosstat (2007b: 20) and Rosstat (2008: 30)

In the Orel *Oblast'*, the share of poultry production in the farms rose from 47 % in 2001 to 66 % in 2006. Although the production of small producers increased, their share in the regional production decreased between 2001 and 2006, from 53 % to 34 %, as the global volume of production exploded. This data reveals the development trend of the poultry production in the corporate farms. With the help of information collected from the corporate farms of the Orel *Oblast'*, we can state that five corporate farms produce all the poultry of the corporate farms category, which equates to 8,074 tons of poultry meat in 2007. These five corporate farms are: the OAO Orlovskii Broiler (which belongs to agroholding Belyi Fregat, see Table 1), OAO Orlovskii Lider (which belongs to agroholding AMS-Agro, see Table 1); these two farms produce 7,643 tons of poultry meat *i.e.*, 95 % of the regional poultry production by corporate farms. Third place goes to ZAO Berezki with 290 tons in 2007 (we were not able to determine the productive configuration of this farm, so we are unsure about its dependence status) and fourth place belongs to the ZAO Ptitsefabrika Orlovskaya agroholding, which is integrated within the regional agroholding Orlovskaya Niva (134 tons). Finally, in fifth place comes a corporate farm of which we ignore the productive configuration, and thus its dependence status. None of the independent corporate farms identified have participated in the production of poultry meat in the Orel *Oblast'*. To our knowledge, the production of poultry meat appears to be a specific product of the corporate farms owned by agroholdings.

## **Discussion**

The productive configurations are organized in different ways. The public agroholding chose to integrate very heterogeneous farmers (corporate farms, household plots, individual farms). Rather than specializing in a type of production, the managers of Orlovskaya Niva privileged higher-valued products through the integration of processing plants and market halls. Its production is linked to the consumption of the regions inhabitants (bread, meat, vegetables, etc.). The productive configuration established by the oligarchs concentrated on high value-added products (by integrating all elements of the value chain from producing to selling foodstuffs). On the contrary, the independent corporate farm managers signed commercial contracts with the FPIs to sell low value-added products. Finally, the individual farmers preferred to limit their implication in market competition with the other productive configurations by hiring middlemen. These organizational strategies come along with specific *commercial and patrimonial relationships* in each configuration. We summarize these relationships in the Fig. 1.

Fig. 1: The four productive configurations in the Orel Oblast'

	Public agroholdings				Private agroholdings		
	corporate farms	individual farms	household plots	agroholdings	corporate farms	oligarchs	
Commercial relationship	to deliver products to the agroholding at a lower price than the market price			competition with other PC on the local market	to deliver products at a lower price than the market price	competition with the FPI on the foodstuff markets	
Patrimonial relationship	collective goods	housing for young people		(1) food security (2) collective goods	collective goods	to apply a social policy to the countryside	
Local and federal regulation	(1) access to credit	(2) credit for housing projects		access to credit from regional banks	access to the credit market	(1) access to credit from regional banks	(2) quotas
	Food processing industry				Small producers		
	corporate farms	household plots	middlemen	FPI	individual farms	household plots	middlemen
Commercial relationship	to deliver products at the market price		improve the competition between farms to the benefit of the FPI	competition with private agroholdings on the foodstuff markets	Competition with other farmers	competition with the other household plot owners	(1)encourage the competition between small producers to knock down prices (2) find outlet opportunities
Patrimonial relationship	play a kryša role		avoiding the competition with the corporate farms	n.a.	to deliver inputs for the landowners	n.a.	Reproduce the identity of the small producers
Local and federal regulation	n.a.		n.a.	unfavorable quota policy	n.a.	n.a.	n.a.

Public and private agroholdings force the integrated corporate farms to enter into an unfavorable *commercial relationship*. This relationship consists of buying products at lower prices than the market prices. But at the same time, the agroholdings maintain a *patrimonial relationship* with the farming communities of workers by supplying them with social services. The difference between private and public agroholdings is put on the public agroholdings' interest for the food security issue.

The independent corporate farms and the FPIs only maintain a *commercial relationship*, the latter buying non-transformed products from farms at the market price and selling transformed foodstuffs.

Finally, the small producers enter into an unfavorable *commercial relationship* with middlemen. However, the individual farmers have a *patrimonial relationship*

with the rural community of land owners. They are supplying them with a part of their production in return to a land access.

These four productive configurations lead to a *régulation* of competition, which gives priority to the oligarchs (owners of the private agroholdings) in regards of the quota policies. Another policy allows the agroholdings to benefit from a competitive advantage compared with the FPIs. Following the “national priority project for the development of the food-processing industry”, the authorities set up a financing system in 2006. Yet, an analysis of grant allocations shows that it is mostly the integrated corporate farms that benefit from these subsidies. Here is a list of the main subsidies and grants beneficiary in the Orel *Oblast'* for year 2006: the OOO Znamenskii SGC companies (for the purchase of 290 pigs), the OOO MTS-Zmievkva (for the construction of a pig breeding facility), the OAO Agrofirme Livenskoe Myaso (for the reconstruction of a cow breeding facility), the OAO Plemzavod Sergievskii. All of these corporate farms are owned by private agroholdings. We interpret this *régulation* as a means to preserve institutional hybridization between commercial and patrimonial relationships brought by integrated corporate farms.

Without this sectoral *régulation* the private and public agroholdings would be forced to limit their social role to compete with the factories of the FPI sector. At the same time, their choice to play social role can appear as a strategy allowing lobbying and as a means to negotiate access to loans and protective quotas, thus reviving the Freeman's (1984) explanation of corporate social responsibility.

## **Conclusions**

We identified four cohabiting “productive configurations” thanks to *régulation* in the agricultural sector of the Orel *Oblast'*. The first one has been developed by the Orel government: The government emphasizes food security and the zoning of the region by controlling some corporate farms and individual farmers. The second productive configuration was developed by new operators. In this configuration two elements are linked together: the financing of some collective goods by the farmers in return for the favorable *régulation* of the food market by the regional and national authorities. This *régulation* takes the shape of quotas on meat importation or on facility access to credit for the oligarchs in the Orel *Oblast'*. The third “productive configuration” enables the development of two types of farms: independent corporate farms and household plots. In this configuration, the independent farms find new outlets into the food-industry and help household plot owners to get contracts with industrial operators. This type of compromise guarantees the fulfillment of the local population's basic needs. The fourth productive configuration helps to expand the activity of individual farmers: They

sign contracts with middleman to guarantee outlets for their products, avoiding direct competition with corporate farms and food-industry. But individual farmers provide the landowners with outputs from their plots of land in exchange for rental land and even provide employment.

Actually, each productive configuration is a result of strategies led by farmers in a highly competitive context. These strategies are related to the farm social practices. The level of social investments for farmers differs across productive configurations. For instance, the farmers involved in the productive configuration of the food processing industry do not finance any social welfare for rural population (but, as we mentioned, they help household plot owners to sign contracts with food-industry). On the other side, the farms integrated into private agroholding received funds allocated to finance social policies for rural area. In the same time, the farm social practices seem to be a determinant of the *régulation* of the agricultural sector in Russia. Consequently, social policies of the farms cannot be separated from their economic development strategies.

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## Appendix

Table 1: Agroholdings in the Orel Oblast' in 2008

Head office	Owner's name	Usable farmland (ha.)	Investment in 2008 (R. Md.)	Main activity/Activity in Orel	Number of CF* in Orel
OAo Agrofest-Don (OOO Agrofest-Orel)	Aleksei Fedorychev	31,000	0,134	Football/Grain production	10
Mossel'prom (in 2009)	Sergei Lisovsko	N/D	N/D	Television and press/Pig breeding	3
Agroholding (AMS-Agro)	Chetverikov	30,000	2	Politician/ N/D	9
Belyi Fregat	Anatolii Butorin	10,0000	1,3	Grain Import /Poultry farm	5
ZAO AVK Eksima (Eksima Agro).	Nikolai Demin	46,000	4	Meat international trade /Pig breeding	4
Set-Holding (link to OAo 'Severnaya Neft' bought by Rosneft)	Aleksandr Samusev	50,000	0,004	Oil/Grain production	4
Agroteh-M	Zhanna Mahova	8,500	1	Oil/Daily cow breeding	3
Nobel-Ojl (Nobel-Agro)	Grigorij Gurevich	90,000	0	Oil/Grain production	3
OOO Planeta	Perelygin Leonidovich	8,800	0,016	N/D/Daily cow breeding	2
Agriko (Shablyinskii agrokompleks)	Vladimir Bovin	6,000	4	International Trade of Grain/Pig breeding	2
holding 3AO Orelinvestprom	Il'yazhov M.A.	40,000	6,5	Cement works/Pig breeding	2
Avto baza Il'inskoe	V. P. Veshchikov	9,500	0,03	Construction firm in Moscow/Potato	2
Al'kor Holding grupp AG – russo-swiss Bank (Avangard Agro-Orel)	Vladimir Dzhangirov	11,200	1	Bank/Sunflower oil	1

<b>Head office</b>	<b>Owner's name</b>	<b>Usable farmland (ha.)</b>	<b>Investment in 2008 (R. Md.)</b>	<b>Main activity/Activity in Orel</b>	<b>Number of CF* in Orel</b>
Prodimeks Holding (bought 51% of the company "Kompaniya Evroservis")	Hudokormov Igor' Vyacheslavovich chairman of Razgulyaj	14,400	N/D	Sugar import from Ukraina/Sugar manufacturing	2
Holding Zolotoi Kolos	N/D	2,600	0,059	Regional agroholding from Tatarstan	1
DAO 'Agropromyshlenniy al'yans Yug'	Isaenko Petr Dmitrievich	8,000	1,4	N/D/ Pig Breeding	4
Moslovo	Aleksandr Dragal'tsev**	35,000	-	Dairy cow breeding and market gardening	2
Yunost'	Sergei Boudagov***	2,200	-	Grain production	1
OOO Omega Kompaniya	Karmanov Konstantin Nikolaevich	4,300	0,45	N/D/Dairy cow breeding	1
Total	41 % of the usable farmland	487,200	22		58

\*CF= Corporate Farms, \*\* Nephew of the Governor Stroeve, \*\*\*Brother-in-law of the Governor Stroeve.