EVOLUTIONARY PROCESS OF INTERNAL STRUCTURES OF LITHUANIAN AGRICULTURAL COMPANIES

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This article is an attempt to outline the establishment and the further development of agricultural companies as corporate institutional units within the new area of ownership relations. This study is a synthesis of the investigations carried out throughout the decade commencing at the start of the transition process and focusing on the development of new organizational farms in general, and corporate units in particular in Lithuanian agriculture. This study aims to proceed the examination of the mechanisms of the restructuring of agricultural companies after their establishment and the actual changes that were observed in the corporate agro-industrial system sector in the context of contemporary external conditions within the sphere of agriculture. In order to identify the distinguishing features of the development process of the internal structure of Lithuania’s agricultural corporate farms from an ownership-relation point of view, the typology of farm business and the concept of „subsumption” developed by Whatmore, Marsden, Munton and Little have been adopted. The examination of empirical material consists of two interdependent stages. The analysis starts with an individual description of the internal relations of production, i.e. the ownership of business capital, the ownership of land rights, the control of business and operational management and, last but not least, labour relations as the key components of the internal structure of farms. The classification of agricultural companies into types following the differences in their internal structures is outlined.

Key words: farm typology, corporate farm, ownership relations, internal structure, „subsumption”.

JEL Classification: P14, P32, Q15, J21.

Introduction

The statistical data and empirical information show that in the middle of the 1990s the former collective and state farms practically disappeared throughout the country and were replaced not only by family farms (the establishment of an individual farm outside of the former collectivist framework) but also by large corporate structures which replaced former collective structures e.g. agricultural companies, joint-stock companies, limited liability partnerships, co-operative and other corporate farms. The restructuring of former collective and state farms in all its diversity was, thus, an inseparable component of the privatization process in agriculture. The largest part of the former collective and state farms was transformed into agricultural companies. Over the period 1992–1993 more than 3.2 thousand corporate units were established comprising nearly 42% of agricultural land.

On the other hand, National Agricultural Census (2003) showed that the number of Corporate Farms had decreased six times (in comparison with the early 90’s) to five hundred, comprising nearly 11% of agricultural land. The average size of Corporate Farms was rather diverse: Agricultural Companies used an average of 697 hectares, the Limited Liability Companies and Close Limited Liability Companies 304 hectares, and Co-operative Companies 460 hectares. Despite a significant drop in the number of corporate farms and the amount of land used by them, their importance in the production and supply of agricultural products has remained fairly stable since 1998. Throughout the period 1998-2004, corporate farms were producing approximately 31% of animal and 15% of crop production.

The results of the quantitative analysis described above pose important theoretical as well as practical questions as to how patterns and drivers of the transformation of corporate farms over time can be explained. As the focus of this article is on description and analysis of the development of the agricultural corporate units in Lithuania using an ownership approach, this examination will concentrate on the dynamics of the internal and external relations of the agricultural production in corporate farms.

Most sources of academic literature and applied studies (e.g. Csaki et al, 1998; Lobley et al, 2002; Liefert et al, 2002; Lerman et al, 2002; McMaster et al, 2001) which attempted to analyse transformational strategies and the results of post-socialist agriculture came to the

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conclusion that large collective and corporate farms still play a much more prominent role in the ECA region than in market economies, where, vice versa, agriculture is predominantly based upon family farms (which are not necessarily small, although much smaller than the corporate farms in transition countries). Some of the authors (e.g. Gasson et al, 1993, Whatmore et al, 1987a, 1987b), who have examined the development of family farm businesses, argue that the nature of the farm business cannot be properly understood without a reference to the family that operates it.

The conceptual framework for transition envisaged a transformation from collective to individual agriculture as the ultimate goal, although it was recognized that some agricultural activities and some sub-sectors would be characterized by a mixture of individual and corporate forms of organization due to economies of scale and scope. Pragmatic considerations suggested an intermediate stage involving a transition to downsizing but with still relatively large corporate or cooperative farms based upon private ownership of land and assets and with radically modified, profit-motivated management showing significant accountability to individual members and shareholders. Unlike the traditional collective groups, these corporate agricultural producers would neither be subject to the pervasive intervention of the state nor rely on its largesse. It was expected that such a framework of transition would lead to market-oriented agriculture with dramatically improved productivity and efficiency (Lerman et al, 2002).

On the other hand, a growing number of authors suggest that in industrialized countries agriculture is experiencing a gradual shift away from traditional family farming towards farm business structures that are also more corporately oriented. However, as Whatmore et al (1987a) argue, the monopolistic ownership of land under family private property rights, limits the process of the penetration of external forces (e.g. industrial, commercial, finance or foreign capital or other companies) into the sphere of agriculture and the real processes of "subsumption" by which the agricultural production of farms and its associated social relations, are being transformed under capitalism. As Lithuania’s experience shows, the process of corporate involvement in farming took a different pathway.

Firstly, by the pursuance of the privatisation of agricultural capital, the majority of former collective and state farms were reorganized into new corporate farms. The specific feature of this process is that under the scenario of agrarian reform, the workers of the collective farms privatized the assets of these companies as they had the first priority to do so. External capitals barely participated in this process. Secondly, the gradually changing legislative basis of the functioning of agricultural corporate companies and especially agricultural companies, created the preconditions for the direct penetration of the external forces (e.g. industrial, commercial, finance or foreign capital companies or other owners) through the purchase of shares. Within the last two years, the increase in the pace of this process was determined by two major factors: direct and structural support of the EU and a rapid increase in the price of land and other real estate. It should be added that the process of „subsumption” into the process of agricultural production is indirect and goes via a contract system with processing industry of „food chain” or „fibre chain”.

The goal of this examination is to determine the development of the internal structures of agricultural companies after their establishment and to explain how the patterns and drivers of this transformation occurred over time. As the focus of this article is description and analysis of the development of agricultural corporate units in Lithuania using an ownership approach, the emphasis of the examination lies on the dynamics of the internal relations of agricultural production in corporate farms.

This paper is organised as follows: the second section will present the conceptual and methodological background for the examination of the process, pattern and drivers of the transformation of ownership and other production relations of the corporate farms, which took place just after they had been established and continue in contemporary conditions. As a methodological basis, the concept of farm-business typology is used as developed by Whatmore et al (1987a; 1987b). Some of the distinguishing key features of the transformation of the ownership and other associated social relations within agricultural companies are presented in the third section. In the final section the findings are brought to conclusion.

1. The methodological approach

The methodological approach of this investigation is based upon the typology of farm business and the concept of „subsumption” developed by Whatmore, Marsden, Munton and Little which define the internal structures of farm business in the context of contemporary external conditions within the sphere of agriculture. This typology allows the identification of: (i) the distinguishing features of the process of development of Lithuania’s agricultural corporate units (ownership approach), and (ii) the key internal and external drivers of this process as showed in the first figure (below).

Firstly, some of the key dimensions of the agricultural production relations have been adapted – as developed in Whatmore et al’s farm business typology – in order to examine the mechanisms of the transformation of production relations in Lithuania’s agricultural companies. The internal relations of production defining farm business internal structure depend upon (i) the ownership of business capital (ii) the ownership of land rights (iii) business and operational management control, and (iv) labour relations
The authors note that the analysis of changing production relations poses important theoretical as well as practical questions as to how we understand, explain and describe differences between farm businesses and their patterns of change over time. The use of typologies is one of the methods by which to formalise the understanding of these differences (Whatmore et al, 1987a).

The purpose of this examination is to describe the differences and their particular manifestations, as well as to identify the pattern and drivers of the process of the transformation of ownership and other social relations in agricultural companies (see Figure 1).

In their development of the typology of farm business, Whatmore et al used not only internal but also external components to describe the production relations. They highlighted the significance of the external relations by incorporating into their analysis two types of elements: (i) the structural changes which occur outside the farm gate and (ii) the outside organisations of agricultural business. With regard to the latter, as mentioned above, the direct effect of external drivers on the internal structure of the pattern and degree of change within agricultural companies will be examined. It should be noted that in the case of Lithuania, governmental institutions played a primary role in the process of transformation of the internal relations of agricultural companies through legal changes in the ownership of capital and land which took place in recent years.

<table>
<thead>
<tr>
<th>DIRECT DRIVERS</th>
<th>INTERNAL RELATIONS OF PRODUCTION</th>
<th>IMPLICATIONS</th>
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<tbody>
<tr>
<td>Farm holders’ attitudes and priorities</td>
<td>Ownership of business capital</td>
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</tr>
<tr>
<td>Political instruments</td>
<td>Ownership of land rights</td>
<td>Economic</td>
</tr>
<tr>
<td>External capital</td>
<td>Business and operational management control</td>
<td>Social</td>
</tr>
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<td></td>
<td>Labour relations</td>
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</table>

Fig. 1. The Process of Transformation of Farm Internal Structures: an Internal Production Relations Approach

Secondly, Whatmore et al’s concept of „subsumption” (1987a, 1987b) has been adapted as a means of examining the mechanisms, by which production relations, specifically capital and land ownership, are being transformed in agricultural companies, and control over them by external forces (e.g. industrial, commercial, finance or foreign capitals companies or others owners) are increasingly penetrating on these farms over the last decade, especially in recent years. In Lithuania, the process of the direct or indirect penetration of external capital into agricultural companies and other agricultural corporate units took place unevenly at various periods of the time-span under consideration and in different regional geographical areas. The process was determined by major changes in the juridical basis of the ownership of corporate farms such as voting rights. The system of one vote for each shareholder was changed in 1997 to votes being dependent upon the number of the shares owned and, in 2001, corporate units were given the right to become shareholders of agricultural units. Additionally, the interest of external capital started to increase because of the EU’s capital and operating subsidies which were made available to the agricultural sector. With respect to location, external capital holders are mostly interested in agricultural units which are on fertile agricultural land.

Whatmore et al drew attention to the concept of subsumption concerning the different ways in which the agricultural process of production on the farm and its associated social relations are being transformed. At a theoretical level, two kinds of subsumption can be identified. First, there is real subsumption involving the direct ownership and control by corporate capital external to the industry of the means of production of the farm and with a strong influence over the development of the technical means of production. Second, there is formal subsumption involving the appropriation of surplus value from the process of farm production by external capital without directly controlling the technical means of production but entailing some degree or form of indirect control over the relations of production on the farm (1987a, p. 27). Thus, according to Whatmore et al (1987b, p.105), the degree to which the ownership and/or control of these internal relations are diffused outside the farm gate indicates the degree of direct subsumption of the production process.
The extent to which farm businesses depend upon external relations for their continued viability indicates the degree of indirect subsumption. Following Goodman and Redclift (op. cit.), Whatmore et al (1987b) propose to use the concept of subsumption as a means of examining the mechanisms by which farm production relations are being transformed and control over them by individual family capitals diffused and weakened through the growing integration of the farm production process in the wider circuits of capital. This tenuous process is historically and spatially uneven one. Its operation on the ground derives from the interaction between the competitive movement of industrial and finance capitals, seeking to valorise sectors of farming by restructuring the labour process (Goodman & Redclift, op. cit). The purpose in examining the process of „subsumption” is to increase our understanding of the process of the penetration of external capital into the agricultural sector and its impact on the development of corporate or other farms in Lithuania.

Thus, in the next section, the examination of empirical material consists of two interdependent stages. The analysis starts with an individual description of the internal relations of production (ownership of business capital, ownership of land rights, business and operational management control and labour relations) as key components of the internal structure of farms. Here the emphasis lies on the patterns and drivers of internal-relation changes over time to identify the mechanisms by which the structures of Lithuania’s agricultural companies are being transformed and to illustrate the differences and particular manifestations of the relations in the first decade after these farms had been established.

The categorising of agricultural companies into types following the differences in their internal structures is outlined in the second stage. The adoption and development of a typology of internal structure of agricultural companies allows reaching the following research goals: firstly, to overcome the problem of conceptualisation of these companies as one discrete homogenous group; and secondly, to understand the process of subsumption and to indicate the degree of involvement into this process for each of these sets of internal relations of agricultural companies.

The sequence of the examination of empirical data describing the transformation of the internal structures of Lithuanian agricultural companies can be schematically represented as follows:

<table>
<thead>
<tr>
<th>Start-up Pattern of Internal Relations</th>
<th>Key Drivers, Factors of Change</th>
<th>Category of the Changed Pattern of Internal Relations</th>
<th>Typology of Internal Structures</th>
</tr>
</thead>
</table>

Fig. 2. The steps of the analysis and typology of agricultural companies’ internal structures

The empirical data used for this analysis comes from primary and secondary sources of information. The primary, i.e. information from corporate farms, was provided by the selective fieldwork that was conducted in twelve administrative district areas in which the corporate and other collective farms i.e. non-family farms were using more than 30% of agricultural land. Between December 2004 and October 2005, 191 agricultural corporate units of which 158 agricultural companies were surveyed. Secondary information is provided by the database of the Lithuania Statistics.

This study is also largely a synthesis of the authors’ investigations throughout the decade commencing at the start of transformation. The results are referred to in research papers and published articles (some of which are listed in the reference section).

2. The transformation of the internal structures of agricultural companies: ownership evidence

(i) the start-up patterns of internal relations and the direct drivers of their transformation

As mentioned in the first chapter, most of the former collective, state and other state-owned farms were restructured into agricultural companies by taking them through a process of corporatisation. When this process occurred in the mid-90s, their typical (further in the text - start-up) internal structure could be analytically described according to four key dimensions (chosen and described by us earlier) of the internal relations of production:

1) Dispersed ownership of the capital. The shares become dispersed into the hands of a larger number of share owners. The major part of the assets was transferred to the previous workers of collective and state farms during the period of privatisation 1992–1994. Prior to reform of the farms themselves, Kornai (1990) rightly warned about the outcome that this strategy would instigate. The consequence was that ownerless state ownership of the former collective and state farms was changed into an ownerless ownership consisting of a larger number of shareholders;

2) All land was rented. More than a decade after the start of Land reform in Lithuania the property rights of private ownership of agricultural land were legalised and granted only to private individuals. Because of this, agricultural companies used land which was rented from private individuals or as state-owned land;

3) The collective control of the agricultural company using the principle: „one member (shareholder) -
one vote”; and operational management held by the company’s elected board or administration and head of administration;

4) All hired labour of insiders, i.e., shareowners (the same company’s members and shareholders according to the Law of Agricultural companies). Agricultural companies which transformed the former collective and state farms inherited from their predecessors not only assets but labour force as well.

Therefore, agricultural companies, the same as other organisational forms of collective farming (e.g. joint-stock or closed joint-stock companies), according to their internal structure, i.e., the ownership of capital and other inter-related social relations and relations of production (with the exception of the style of control and management) de-facto remained the same as their predecessors.

However, after the first stage of transformation, when most of the assets of former collective and state farms were already privately owned by newly established companies, it became clear that such new organizational structures of private collective farming, specifically of agricultural companies, did not ensure economic efficiency and that their restructuring, i.e. „self-restructuring” or politically induced changes of ownership was inevitable. During the last decade, specific pathways of further self-restructuring (self-transformation) of ownership and accordingly the internal structure of agricultural companies differed from company to company, subject to individual drivers and separate factors. As mentioned in part one, the development of the majority of collective or state farms was quite dramatic: more than a half were liquidated over the first five years of their establishment, and quite a lot were liquidated in the following years (Table 1).

The reason for such a quick liquidation of enterprises was found in the process of establishment (Vitunskiene, 2001): 1) wrong principle of the formation of capital ownership was undertaken. Property ownership without a specific owner of collective farms was changed to property ownership with a large number of shareholders. The responsibility for taking wrong decisions and their negative results was shared by a number of shareholders who had no motivation for a collective way of farming. The response of the peasants to such an ownerless farming, whereby they used assets which did not have a real owner was expressed through the destruction of – taking away „brick by brick” – warehouses, garages, farms and other industrial buildings; 2) the majority of the newly established Production-Technological Units (PTU) which formed the basis for agricultural companies were inadequately formed, i.e., some of these units which were set up were not economically viable and too small. They did not function properly and 3) the principle of the segmentation of capital. The right to own part of the companies’ assets (equivalent to the amount of the shares owned) was reserved for individual or group members according to the Law of Agricultural Companies.

The internal structure of the operating agricultural companies is continually being transformed by the reorganisation of their ownership and other related social relations. According to Lobley et al (2002), a wide range of factors impinging upon agriculture can be considered as drivers of restructuring. Lobley et al (2002) identifies four major categories of drivers and this classification has been developed by Entec (op. cit.): the policy framework, market forces, technology and knowledge (ibid). Following these authors, the factors directly impinging upon the process of self-transformation of ownership and accordingly other social relations of agricultural companies were considered by us as drivers of inter-restructuring. In this paper, the examination of the development of ownership and other internal relations of production in agricultural companies is linked to the direct drivers of which three key categories have been chosen:

1) A set of shareholders’ attitudes and priorities.

2) A set of political instruments which directly changed the ownership of capital, land and business and operational management control.

3) A set of the external forces of capital, e.g. industrial, commercial, finance or foreign capital companies or other owners, which impinge on the structure of farms and increasingly penetrate into agriculture through purchasing shares and agricultural areas of the land.

(ii) the transformational changes of the ownership of capital

In most post-socialist economies, after privatisation, the transfer of property rights in agriculture accompanied a development of procedures that allowed the regrouping of the privatised land and assets according to the preferences of the new owners-operators (Lerman et al, 2002). In Lithuania, the transfer of the property rights of shares (i.e. capital) was a key natural starting point for further development in the process of the relations of ownership and, generally, the internal structure of agricultural companies after their establishment. A priori, for the majority of them it was one of the key factors of survival. It was mentioned in section one that agricultural companies were established using a method of fund privatisation, i.e., by acquiring the shares of new farms. Former farm workers (i.e., insiders) got the right to have the first priority to acquire the shares and mostly of shareholders became owners of the newly established farms and each of them had the right to one vote. Consequently, most of the agricultural companies became private capital companies with dispersed ownership of property rights or, according Kornai (1990), these companies became ownerless as they lacked real „flesh and blood” and therefore, effective management.
Such a pattern of privatization and scenarios of relations of capital ownership determined other internal social factors to produce persistently and inevitably inefficient new agricultural companies. Agricultural companies can analytically be separated into three categories according to their specific social functions:

1) A relatively large number of workers remained in former farms. Shareholders with a low motivation for collective work made up the largest part of the workers in agricultural companies. This problem has remained in agricultural companies, possessing a large number of shareholders, until nowadays.

2) Most of the shareholders, during the Soviet era, owned individual subsistence or semi-subistence farms based on plots of less than three hectares, consequently, a distinctly dual structure of the distribution of labour and other agricultural company resources was created.

3) In consequence, most of the agricultural companies provided agro-services to fore-mentioned individual farms of shareholders at a giveaway price. Therefore, the prime business concern of the agricultural companies was not necessarily the generation of profits for shareholders.

Most authors who have investigated the processes of transformation in post-soviet economics (e.g. Csaki et al, 1998; Lerman et al, 2002; Liefert et al, 2002), questioned the efficiency and productivity of the newly established corporate companies in comparison with their predecessors. Lerman et al’s suggested, that it is surprising that in many empirical studies the new „restructured” farms do not come out as more efficient than their „non-restructured” counterparts? Perhaps much of the restructuring effort has been largely misguided and misplaced? (Lerman et al, 2002).

Therefore, the reorganisation of the rights of capital ownership and the internal structure of agricultural companies was an inevitable process. Analytically it can be separated into two types: a „self-restructuring” process and politically induced process of changes. A „self- restructuring” process of agricultural companies is now under development when rearrangements or new combinations of internal relations (ownership of capital, land usage and relations of ownership, business and operational management control and labour relations) are initiated by internal drivers. Also a legal basis is needed for creation of the legislative preconditions for „self-restructuring”. The key drivers, patterns and implications of changes are summarised in Table 1.

### Table 1. The transformation of the ownership relations of capital in agricultural companies: the patterns, drivers and implications of changes

<table>
<thead>
<tr>
<th>Start-up patterns</th>
<th>Drivers, factors</th>
<th>Implications of change</th>
</tr>
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<tbody>
<tr>
<td>Most of the shares become dispersed among a great number of individual shareholders.</td>
<td>Amendment to the Law on Agricultural Companies regarding the voting rights of members (1997). Inheritance of shares. Sale of shares to private persons -insiders Sale of shares to private persons – outsiders.</td>
<td>Concentration of all or most of the shares in the hands of a small group of shareowners („core owners” as dominant group of shareholders). Concentration of most of the shares in the hands of one private shareholder („core owner” as dominant one person-shareholder).</td>
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<td></td>
<td>Amendment of the Law on Agricultural Companies regarding the rights of a legal entity to acquire the assets of agricultural company (2001) Sale of shares to a legal entity from outside of the company.</td>
<td>Concentration of most of the shares in the hands of another company („core owner” as dominant corporate company i.e. legal entity shareholder).</td>
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Essential dimensions of restructuring of capital ownership relations in agricultural companies after their establishment include concentration of the shares by „core owners” and accordingly growing power of business and operational management control, new capital investments and penetrating external capital (e.g. industrial, commercial, finance or foreign capitals companies or other owners). The basic pathway for doing so is sale – buying of shares. Although empirical evidence on the scale of this penetrating process is quite limited. Phone survey completed during September, 2005 of 97 acting agricultural companies in 7 administrative districts, indicated that 24.7 % (e.g. 24 from 97) agricultural companies or „core owners” were legal entities. On the other hand, despite the enlarging the external capital involvement in agricultural activity by redistributing ownership rights and power on farms, no research and analysis has ever been carried out in Lithuania. In the meantime, discussions are going on between policymakers, different social groups e.g. farmers and other agricultural subjects, landowners, external capitals owners and industrials. Numerous arguments for and against the direct subsumption of the agricultural production process in the modern agro-industrial system through the „food chain” or „feedstock chain” are provided. In essence, the involvement of industrial, commercial, financial or foreign capital in farming (agricultural sector) is opposed in two following aspects.

Firstly, some experts have suggested that external capital owners under the process of penetration into agricultural companies will cover agricultural land, and then individual and family farms will be deprived of agrarian land.
Secondly, it is widely agreed that the opportunities of the family farms to receive the EU structural support are less favourable in comparison to those of agricultural companies and other corporate farms especially the ones with a dominant corporate company or other outsider as a „core owner“. Evidently, during the period of 2002-2005 m. about 48 %³ of EU structural support (SAPARD and EAGGF Guidance Section's) dedicated to the investment in primary agricultural production was given to agricultural companies.

However, no studies have so far been carried out on the economic effects of the involvement of industrial, commercial, finance or foreign capitals in agricultural production on separate farms and agricultural industry as a whole, and the subject has not been debated yet. Very little is known about how direct involvement of external capitals affects the financial conditions of agricultural companies.

Following Kornai (2000), a particularly desirable type of owner is a strategic investor who is willing to back the company up by providing a significant injection of a new capital. Current and former investigations (Čaplíkas et al., 2002, Vitunskiene, 2001) have led to the conclusion, that one of the primary economic effects of the process of external capital involvement in agricultural companies, where the „core owner“ is dominant corporate company as potential investor, is the occurrence of the „soft budget constraints“. The concept of „soft budget constraints“ was introduced by Kornai (1980) more than 20 years ago. Vice versa, Kornai (1990, 2000) emphasizes that the budget constraint on companies has to be hardened. As the budget constraint hardens, it performs a process of natural selection among them (Kornai, 2000). Sometimes, in relatively short periods, e.g. 2001-2003, when the agricultural terms of trade drop down to 17 %, this soft budget constraint phenomenon became a guarantee for agricultural companies. Unfortunately, the data available suggests that it is too early to draw final conclusions about the economic effect in cases of the soft budget constraint phenomenon.

(iv) the transformational changes of business and operational management control

As Lerman et al., (2002) observe, theoretically, corporate farms are inherently disadvantaged by various monitoring, transaction, and agency costs, which are unnecessary in family farms and are unavoidable in corporate structures with hired labour and professional managers. In the conceptual scenarios for transformation of former collective and state farms into agricultural companies, it was envisaged and expected that the individual responsibility and direct accountability of shareholders would that takes place through voting or agreements „to cure free riding, shirking, and moral hazard that make collective organizations generally inefficient“ (Lerman et al., 2002).

In Lithuania, in the conceptual privatisation scenario of collective and state farms, the process of their reorganisation into agricultural companies was designed and it was expected that individual initiative and adequate responsibility and accountability of shareholders would be shown through voting or other agreements „to cure free riding, shirking, and moral hazard that make collective organisations generally inefficient“ (Lerman et al., 2002).

In order to incorporate Lithuania into the free movement of capital, based on the EU Acquis Communautaire, the 47th article of the Constitution of the Republic of Lithuania was changed allowing a legal entity to buy and own agricultural land. Regarding the transformation of the usage and ownership of land rights in agricultural companies, the consequences of this act analytically fall into two types (see Table 2):

(i) Since 2002 agricultural companies and other legal entities started purchasing the agricultural land form individual private owners and since 2003 using the right of first priority⁴, also to buy state-owned land. It should be noted that throughout 2003 this process was very slow. Data collected from 191 corporate farms show that for 1 January, 2003, farms owned only 1% of total land used. Agricultural Census indicated that in 2003, all corporate farms owned 0.87% of agricultural land in Lithuania.

Penetration from the outside sector (e.g. industrial, commercial or financial capital) through the purchase of a majority of shares at the beginning of the process so becoming a „core owner“ and afterwards through buying state-owned agricultural land increased notably. This process has expanded after Lithuania had become a full member of the European Union on 1st May, 2004.

³ Source: author’s calculations based on the data of National Paying Agency (Lithuania)

⁴ According to the Provisional Law on the Acquisition of Agricultural Land (2003), a legal entity, including agricultural companies, may acquire agricultural land by the right of ownership provided that it has earned at least 50% of its income from agricultural activities for the 2 preceding years. The area of agricultural land acquired by the agricultural company should not exceed 2000 ha
As Lerman et al. (2002) highlight, only corporate farms that undergo a significant internal restructuring of operations and management are theoretically expected to be competitive with individual farms through measures of productivity and efficiency. In the context of the research this conclusion could be interpreted as follows: agricultural companies in which strong managerial control is enacted by a "core owner" are theoretically expected to be "more manageable and less wasteful" (ibid) than their "non-restructured" counterparts in which managerial control is dispersed throughout a high number of shareowners. Absence of such a real "core owner" who may, according to Kornai (2000), be a business person or a group of owners, or a privately owned company that has already had a history of private ownership, resulted from the fact that the majority of agricultural farms were less effective than when operating as collective or state farms and their bankruptcy was therefore inevitable.

Throughout the last decade, the process of the restructuring of management control was determined by two interrelated drivers. Amendments to the Law of Agricultural Companies on the voting rights of company members (1997) and on the rights of legal entities with respect to company assets set in place the preconditions for the concentration of shares and control in the hands of a predominant owner. It should be emphasized that in the last five years control and operative management has been taken over increasingly by external capital companies or other owners (see Table 3).

### Table 2. The transformation of land usage and ownership relations in agricultural companies: the patterns, drivers and implications of changes

<table>
<thead>
<tr>
<th>Start-up pattern</th>
<th>Drivers, factors</th>
<th>Implications of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company tenancy</td>
<td>Amendment of the 47th article of the Constitution of the Republic of Lithuania concerning the rights of legal entity to own agricultural land (2001). Provisional Law on the Acquisition of Agricultural Land (2003) was passed granting the right of first priority to agricultural companies in order to purchase state-owned land. Limitation on privately owned agricultural land was introduced by the Provisional Law on the Acquisition of Agricultural Land (since 2003).</td>
<td>Constantly increasing share of land is owned by agricultural company under private property rights Limitation on agricultural land (up to 2000 ha in the years 2003-2006; up to 300 ha – since 2006) owned by agricultural company under private property rights.</td>
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</table>

### Table 3. The transformation of business and operational management control in agricultural companies: the patterns, drivers and implications of changes

<table>
<thead>
<tr>
<th>Start-up pattern</th>
<th>Drivers, factors</th>
<th>Implications of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective control of the agricultural company following the principle: &quot;one member - one vote&quot; (until 1997); and operational management by an elected company’s board or administration and its head.</td>
<td>Amendment to the Law of Agricultural Companies regarding voting rights of members (1997); Concentration of all or most of the shares in the hands of a small group of shareowners (&quot;core owners&quot; as dominant group of shareholders). Concentration of most of the shares in the hands of one private shareholder (&quot;core owner&quot; as dominant one person-shareholder). Amendment to the Law on Agricultural Companies regarding the rights of a legal entity to acquire the assets of agricultural company (2001); and Concentration of most of the shares in the hands of another company (&quot;core owner&quot; as dominant corporate company i.e. legal entity shareholder).</td>
<td>Collective control of the agricultural company following the principle: &quot;voting power proportional to the number of shares held by the shareholder&quot;. Operational management by an elected company board or administration and its head. Concentration of collective control and operational management of agricultural company under a &quot;core owner&quot;. Concentration of control under the owner and operational management of agricultural company under one of two ways; &quot;core owner&quot; or hired manager. Concentration of control under legal entity &quot;core owner&quot; (of other agricultural corporate) and operational management under a hired manager.</td>
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</table>

### (v) the transformational changes of labour relations

Understanding a different set of attitudes, priorities and value-systems related to the activities of agricultural population and their evolution in the longer historical period is a necessary prelude to the understanding of how they operate at the present time on collective private farms, e.g. agricultural companies. An exploration of the agricultural activities of rural people and the development of farms form the beginning of Valakai reform (XVI century) through the Soviet era (1945-1990), revealed that the establishment of new farms in the transitional period of the 1990s was influenced by life-style and the tradi-
tions of agricultural people and was based on two contrasting moral value-systems (Vitunskiene, 1992):

(i) a „traditional” value-system based upon farming and lifestyle customs was followed by peasant farmers and their families throughout last centuries and remained viable during the period of collective farming in the Soviet era, when family farming on 0.6 ha household plots was under economic and administrative restrictions;

(ii) a „soviets” value-system based upon the working and living traditions of the „new” peasant, i.e., the worker of collective or state farms. Following Treinyts (1990), this value-system characterizes a dual attitude towards work formed throughout half-a-century of socialist farming: for „myself” and for the „collective farm”; the same attitude is found towards property: „mine” and the „collective farm’s”. This thinking is based on a nomad psychology, i.e., the catastrophic irresponsibility of people, the instability of an alienated lifestyle, absolute aloofness, the disappearance of feelings of ownership and loosing touch with traditions and the environment. The system could actually be referred to as an „anti-value” system. During the Soviet era, it became a philosophy for state-dependent and suppressed personalities. Even today, after fifteen years since the collapse of the Soviet era, this philosophy encourages most of the people living in the countryside to think that the government has to provide jobs for them, to institute a favourable farming environment, to take care of the farm produce, to assure a sufficient wage or income from farming, and to guarantee an acceptable level of living.

It is understandable, that, at the onset of the transition, the determinants of choice and decision regarding different organizational forms of collective or individual farming were influenced by both traditional value and/or anti-value systems. An analysis of opinions on possible new organizational forms of farming, expressed by rural inhabitants on the eve of reform, concluded that the majority of them were not ready for initiatives, risk and business. Opinion polls conducted in 1990 questioned workers from collective and state farms and showed that more than half of the respondents (58.7%) did not wish to change the organizational form of their agricultural activities. The other responses were distributed as follows: 69.3% of respondents gave priority to agricultural companies, 17.2% to partnerships with a small number of members, 11.6% to joint-stock companies, 4.7% to family farms and 1.3% to other forms of farming (Vitunskiene, 1992). The same poll held after a year showed almost the same results, whereby the majority of the respondents preferred collective farming: 52% for an agricultural company, 25% for a partnership with 5 to 10 members and a 6% preference for family farming. In practice, during the privatization process of collective farms, the majority of the agricultural population chose agricultural companies. It should be noted that during the first two years of reform, 3,483 agricultural companies were established engaging approximately 168.7 thousand of agricultural workers.

This choice could be explained by utilisation of the ideas presented in the works of Kornai, The Road to a Free Economy: (A Passionate Pamphlet in the Cause of Economic Transition) (1990), where he describes how people’s economic sense was atrophied by a centrally planned economy as „uneconomic sense” (Kornai has been using the term „uneconomic” or „anti-economic”). He felicitously describes the attitude of people towards most institutions of democracy and economics who for a long time had lived and worked under the principles of a centralized economy. These institutions are considered to form the basis for various activities under market economy.

The agricultural companies into which former socialist collective and state farms were reorganized had inherited, from their predecessors, not only large assets but also a relatively large number of employees - shareholders with their different attitudes and priorities to work - for „myself” and for the „collective farm”. All or the majority of hired workers were insiders, i.e., shareholders of the company. Therefore, an important characteristic of agricultural companies was their obligation to provide work for their shareholders which means they were also involved in providing social function. That’s why these companies were relatively inefficient, on the one hand, due to the unproductive insiders’ labour and, on the other hand, due to high cost of monitoring labour, and could only survive in a competitive environment under special circumstances. In later years, during the process of the concentration of capital, not only the number of workers was reduced (in absolute terms), but also the share of hired outsiders, i.e., non-shareowners increased (Table 4).

Table 4. The transformations of labour relations in agricultural companies: the patterns, drivers and implications of changes

<table>
<thead>
<tr>
<th>Start-up pattern</th>
<th>Drivers, factors</th>
<th>Implications of changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>The majority of work hiring contracts is made with insiders, i.e. shareholders.</td>
<td>Concentration of all or most of the shares in the hands of a small group of shareholders („core owners” as dominant group of shareholders).</td>
<td>The majority of labour contracts are made with outsiders (non-shareholders) and a minority of work hiring contracts made with insiders (shareholders).</td>
</tr>
<tr>
<td></td>
<td>Concentration of most of the shares in the hands of one private shareholder („core owner” as dominant one person-shareholder).</td>
<td>All labour contracts are made with outsiders (non-shareholders).</td>
</tr>
<tr>
<td></td>
<td>Concentration of most of the shares in the hands of another company („core owner” as dominant corporate company, i.e., legal entity shareholder).</td>
<td>All labour contracts are made with outsiders (non-shareholders).</td>
</tr>
</tbody>
</table>
(vi) the types of internal structure of agricultural companies

The distinguishing features of each of the four interrelated dimensions of the agricultural production relations as key components of the internal structure of Lithuanian agricultural companies are summarised in Table 5. Two aspects are demonstrated in the table: firstly, the scale of types of internal structures of agricultural companies suggest a shift from one pattern of internal relations of production to the other, i.e. from start up (type I in the table below) to the new (types II-V) patterns of these relations; and secondly, the pattern of direct penetration of external capital into the agriculture sector throughout agricultural companies wherein this phenomenon is significant (see types IV and V).

<table>
<thead>
<tr>
<th>SCALE OF TYPES</th>
<th>OWNERSHIP OF CAPITAL</th>
<th>KEY DIMENSIONS OF INTERNAL STRUCTURE</th>
<th>BUSINESS AND OPERATIONAL MANAGEMENT CONTROL</th>
<th>LABOUR RELATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>All shares become dispersed among a high number of individual shareholders.</td>
<td>Company tenancy until 2002, and constantly increasing share of the land owned by agricultural company under private property rights since 2002</td>
<td>Collective control following the principle: „one member - one vote” (until 1997); or following the principle: „voting power proportional to the number of shares held by the shareholder” (since 1997); and operational management by an elected company’s board and its head.</td>
<td>The majority or all of the labour contracts are made with insiders, i.e. shareholders</td>
</tr>
<tr>
<td>II.</td>
<td>Concentration of all or most of the shares in the hands of a small group of shareholders („core owners” as dominant group of shareholders).</td>
<td>Company tenancy until 2002, and constantly increasing share of the land owned by agricultural company under private property rights since 2002</td>
<td>Concentration of collective and operational management of agricultural company under „core owners”.</td>
<td>The majority of labour contracts are made with outsiders (non-shareowners) and a minority of labour contracts are made with insiders (shareowners).</td>
</tr>
<tr>
<td>III.</td>
<td>Concentration of most of the shares in the hands of one person-shareholder („core owner” as dominant shareholder).</td>
<td>Company tenancy until 2002, and constantly increasing share of the land owned by agricultural company under private property rights since 2002</td>
<td>Concentration of control under „core owner” and operational management of agricultural company under one of two ways: „core owner” or hired manager.</td>
<td>All labour contracts are made with outsiders (non-shareowners).</td>
</tr>
<tr>
<td>IV.</td>
<td>Concentration of most of the shares in the hands of another company („core owner” as dominant corporation i.e. legal entity shareholder).</td>
<td>Company tenancy until 2002, and constantly increasing share of the land owned by agricultural company under private property rights since 2002</td>
<td>Concentration of control under a „core owner” and operational management - under a hired manager.</td>
<td>All labour contracts are made with outsiders (non-shareowners).</td>
</tr>
<tr>
<td>V.</td>
<td>Concentration of most of the shares in the hands of another company („core owner” as dominant corporation i.e. legal entity shareholder).</td>
<td>Company tenancy until 2002, and constantly increasing share of the land owned by agricultural company under private property rights since 2002</td>
<td>Concentration of control under a „core owner” (of other company) as a legal entity and operational management - under a hired manager.</td>
<td>All labour contracts are made with outsiders (non-shareowners).</td>
</tr>
</tbody>
</table>

This typology shows the structural differences between the agricultural companies on the basis of their capital, landownership and others associated social relations typical for the decade of transformation. These differences reflect:

firstly, the differences in the structure of agricultural companies after the evolution of their internal relations of production from the onset of their establishment. Throughout the last decade, the transformation of the internal relations of production was time-swap and scale uneven one. Table 6 illustrates the five types of internal structures of agricultural companies, which have evolved at various stages throughout the period since 1992;

secondly, a strong interaction between capital ownership on the one hand and business control or operational management and labour relations on the other hand. Indeed, the relations of capital ownership are a key determinant of other social relations and the pattern of changes in agricultural companies or other agricultural corporate units. Vice versa land using relations – or rent – till the latter year didn’t have impact on transformation processes of agricultural companies’ internal structure. As a matter
of fact, notably fastened involvement of external capital to agricultural companies since 2004-2005 can be described as an unclosed possibility to gain ownership rights of land. Contrariwise, following Whatmore, et al (1987a), the monopolistic ownership of land under private property rights limits the evolution of farm structures, especially the process of real subsumption at the farm level in traditional market economies;

thirdly, capital ownership is a key factor to determine the degree of the process of real subsumption, i.e. what degree production relations are being transformed in agricultural companies and control over them is administered by external capitals.

Therefore, the investigation leads to clear conclusions: 1) throughout the years of 1990s, the concentration of capital ownership as well as transformations in agricultural company control, management and labour relations underwent change in two different directions. On the one hand, capital belonging to agricultural companies was usually concentrated in the hands of insiders (shareholders) and in most cases internal structures were formed as in types II - III, and sometimes as in type III. On the other hand, outsiders (private persons or companies, i.e. legal entities) sometimes took over the shares of agricultural companies (see types IV and V); 2) since 2004, the purchase of shares by outsiders increased and the transformation of internal structures took the path described as in type IV and especially type V. Unfortunately, empirical evidence as to the scale of this increasingly penetrating process is rather limited yet; 3) some agricultural companies survived in their start-up structure and internal relations of production and have not changed until now (see type I).

Conclusions

This methodology is based upon the farm business typology and the concept of „subsumption” developed by Whatmore, Marsden, Munton and Little who defined the internal structures of farm-business in the context of contemporary external conditions within the sphere of agriculture. This methodological approach of a farm-business typology provides a useful tool to examine and detect the distinguishing features in the process of the restructuring and development of the internal structures of Lithuania’s agricultural corporate farms.

An analysis of the process of developments in Lithuanian agricultural companies demonstrates the dynamics of their internal relations of production and the restructuring of their internal structures and leads to the following observations.

An analysis of the individual changes of agricultural production relations (i.e. the ownership of capital, the usage of land and the relations of ownership, the control of business and operational management and labour relations) showed that, during the last decade, specific pathways of further self-restructuring of these relations and accordingly the internal structure of agricultural companies differed from company to company, subject to individual drivers and separate factors.

It turned out that a strong interaction between all dimensions of internal social relations of agricultural production is still taking place. Relations of capital ownership are a key determinant of other social relations as well as the pattern of change in agricultural companies or other agricultural corporate units. It was also observed that capital ownership is a key factor determining the extent of the process of direct subsumption at the level of agricultural companies, i.e. to what extent relations of production are being transformed in agricultural companies and control over them is being administered by external capital.

Three key drivers of the restructuring of the internal relations of production and, accordingly, the structure of Lithuania’s agricultural companies after their establishment were identified: (i) political instruments which changed the legislative basis of ownership in agricultural companies; (ii) the attitudes and priorities of shareholders who were selling and purchasing shares; and (iii) an increase in the direct penetration of external capital into the sphere of agriculture.

The key distinguishing features of the internal structure of Lithuania’s agricultural companies are associated with each of the four interrelated dimensions of the internal relations of production. Five types of internal structures of agricultural companies were identified which had evolved at various stages throughout the period from the start of transformation. These variations in the internal structure of farms suggest a shift from one pattern of internal relations of production to the other.

In Lithuania, the real process of „subsumption” involving the external capitals in direct ownership and control on the agricultural companies has become increasingly prominent at the mid-90s, and rapidly enlarged during the last two years. Thus external capital penetration of internal relations on farms entails the involvement of agricultural production into a modern agro-industrial system through the „food chain” or „fibre chain”.

References


