Labour supervision in agriholdings: insights from post-socialist agriculture

Martin Petrick

Leibniz Institute of Agricultural Development in Transition Economies (IAMO)
Halle (Saale), Germany
petrick@iamo.de
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According to a widely accepted view, large-scale farming operations involving many workers under a centralised management authority are economically inferior to smaller family-run businesses, at least in the temperate zones (Hayami, 2010). The two maintained hypotheses of the underlying "family farm theory" are that (1) technological scale economies are typically exhausted before farm size exceeds the labour capacity of a family and that (2) growth of the labour force beyond family members is inhibited by rising supervision costs. These hypotheses used to be supported by a large body of empirical literature from developed and developing countries (Allen and Lueck, 1998; Eastwood et al., 2010).

Empirical evidence from the post-socialist countries in Central and Eastern Europe and the Former Soviet Union suggests, however, that corporate agriculture based on many workers under a centralised management authority attracts outside capital and, in some countries, displays remarkable growth rates (Petrick et al. 2013). Other than in most developing countries, smallholder agriculture is not the default situation in these countries. After the collapse of socialism, the large state and collective farms evolved into a specific post-socialist agrarian structure which for the most part consisted of incompletely restructured large-scale farms desperately in need of capital infusion and management upgrading. In some of the Central European countries, such as the Eastern part of Germany, Hungary or the Czech Republic, thorough internal restructuring and generous government support helped to consolidate the large farms economically. In Russia, Ukraine and Kazakhstan (the RUK countries), it was only in the end of the 1990s that a new type of farm organisation emerged, called agroholdings. Two main characteristics are their enormous size covering several ten up to hundred thousand hectares of land plus several stages of production and processing, and the dominance of investors from trade, processing, or energy whose core activity was different from agricultural primary production.

This contribution draws on a number of unique quantitative and qualitative data sources from East Germany, Russia, Ukraine and Kazakhstan to investigate how the large-scale farms existing in these countries today manage to tackle their supervision problems. More concretely, I study the evolution of pay systems over the previous decades and the management's specific response to incentive problems in agricultural labour.

In all four countries, pay systems representing a Soviet variant of Frederick Taylor's "Scientific Management" prevailed until the late 1980s. Farm workers were paid according to their material contribution to plan fulfilment, which implied the widespread use of piece rates and bonuses based on hectares ploughed, cows milked or tractors repaired.

As our survey data shows, after the collapse of socialism, reform of pay systems went in very different directions in East Germany on the one hand and the RUK countries on the other. Large farm managers in East Germany replaced the Soviet system by much simplified time rate schemes in the very first years of transition. Some managers continued to experiment with simple bonus systems, particularly in the livestock sector, but by and large these experiments seemed to be not very successful. To the contrary, the Soviet piece rate approach persists up to the present day in most corporate farms and agroholdings in the RUK countries. Moreover, the latter farms rarely use non-wage incentives to motivate their workers, whereas most East German farmers stress that they invest in team building and provide benefits such as pension plans, further training or job security.

These findings are consistent with qualitative evidence from interviews with managers of agroholdings in the RUK countries. They widely complain about complicated pay systems that are firmly established and accepted by their workers, about a lack of motivated and skilled personnel, poor workers' morale, and a low degree of loyalty to the company. Many stress that they have no idea how to determine the remuneration of managers and staff more effectively.

We conclude that human resource management is a widely perceived problem among farm managers, and that managers in the RUK countries face considerable barriers in reforming the piece rate systems inherited from the Soviet Union. The conventional view of the "farm family theory" is supported in the sense that labour motivation appears to be among the most difficult management challenges of agroholdings. However, the example of East Germany shows that large-scale farming based on hired labour can be economically successful if appropriate incentive systems are put in place. Currently, most farms rely on time rate systems combined with simple bonus schemes in some cases. Probably even more important than these bonuses are the non-wage incentives that aim at increasing the identification of the workers with and the loyalty to their company. Why, despite the common heritage, the reforms of pay systems were much more successful in East Germany than in the RUK countries and what can be done to improve worker incentives in a post-Soviet context remain important questions for future research.

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