

Assessment of Agricultural Cooperatives' Performance in Russia: The Case of the Kurgan Region

Svetlana Golovina
Economic Faculty
Kurgan State Agricultural Academy
 Kurgan, Russia
 kkrav84@mail.ru

Maria Antonova
Center for Food and Agricultural Policy
Russian Presidential Academy of National Economy and Public Administration
 Moscow, Russia
 antonova-mp@ranepa.ru

Ekaterina Abilova
Faculty of Management
Chelyabinsk State University
 Chelyabinsk, Russia
 ekaterina.abilova@mail.ru

Abstract—Agricultural cooperation, especially in a current socio-economic, political and institutional environment, has a significant impact on the development of agricultural economy, rural communities and rural territories. The effectiveness of agricultural cooperative performance depends on the government activities aimed at creating agricultural cooperatives and supporting them in terms of information, consulting and finances. It also depends on the scientific concepts used for determination of modern cooperative policy instruments and strategies. The assessment of agricultural cooperatives' performance in the Kurgan Region (Russia) indicates that traditional type cooperatives, set-up in the modern institutional conditions, result in low performance level of such cooperatives. New, modern features of cooperatives, contradicting the traditional cooperative model, and reflecting entrepreneurial behavior of organizations, have emerged in the last several years. This study has undertaken the in-depth interviews with potential and existing cooperative members in the Kurgan region. Results of the study indicate the importance of formal and informal institutions for successful development of agricultural cooperation, and the importance of compliance of cooperative principles to the currently existing institutional environment. Study results show, that present formal and informal institutions lead to the low effectiveness of agricultural cooperatives' performance. A traditional cooperative model is hard to be well-functioning within the modern institutional environment.

Keywords—*agricultural cooperation, agricultural consumer cooperatives, formal and informal institutions, traditional cooperative principles, effectiveness.*

I. INTRODUCTION

Agricultural cooperation in Russia to date has gained a high attention among the scientists and practitioners. The President of Russia Vladimir Putin, and the Russian Ministry of Agriculture, taking in consideration the importance of collaboration between the different kinds of organizational forms of small business, consider an agricultural cooperative as a unique organization to have a significant impact on the agricultural branch of economy as a whole, and on sustainable development of rural communities and territories in particular.

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The current situation in Russia is so, that the agricultural cooperatives in their majority are created in a «top-down» manner, but not in their evolutionary way. The state (government) considers itself to be responsible for the effective functioning of cooperatives. As a result, the local administrative structures initiate the setting up of cooperatives, organizing information and consulting services for them, and granting them a financial support. However, the retrospective analysis of cooperative practices has shown, that in Russia on general and in the Kurgan Region in particular, the progressive efforts of the government in terms of increasing cooperation support in most agricultural regions indicates low effectiveness [1]. The aim of the current study is therefore to analyze the results of agricultural cooperatives' performance within the frames of the accepted and currently running state policy, which started in 2016. This study, first, gives a general overview of research on agricultural cooperatives in Russian Federation, second, it indicates estimation results of the cooperatives' performance in the Kurgan region. Third, it describes the reasons for low effectiveness of cooperatives' performance: (1) features of informal institutions, which impede the joint work and cooperation, (2) legal inconsistencies and contradictions, hindering innovations in national cooperative practices, (3) the necessity to follow traditional cooperative principles leads to the difficulties in cooperative performance because it contradicts with the new features of modern institutional environment.

II. RESEARCH METHODOLOGY

We analyzed the agricultural cooperative's performance by the means of the new institutional theory. This theory considers cooperative's performance characteristics as an outcome of interaction and collaboration between formal and informal institutions. In this article we present information concerning the assessment of agricultural cooperatives' performance in the Kurgan region, and reasons for poor effectiveness of agricultural cooperatives operating in modern socio-economic and institutional environment. As far as agricultural cooperatives today are not evolutionary forms of farmers' collaboration, but more they are a phenomenon occurring in Russian agriculture, the study pays a special attention to the institutional environment, in which cooperatives are set-up and working. Formal and informal

institutions, prevailing in a particular region, traditionally have a significant impact on any business unit arising.

The impact of formal institutions is discussed by a number of Russian and international authors [2, 3]. For example, a low trust level and a lack of business traditions with voluntary participation or/and democratic management, a weak motivation and a lack of collaboration intentions at the different levels of agro-technological chain, has a harmful impact on cooperation. Therefore, an important task of this study is to investigate whether the informal environment in our days is favorable for cooperation or not, and what are the tendencies of its further development? Formal institutions also have an impact on the functioning of cooperatives, their impact is no less important than the impact of informal institutions. Thus, we also make an assessment of the formal environment of cooperation and its recent transformations.

Empirical data was taken from Russian modern cooperative statistics across regions of Russian Federation, statistical reports of the Department of Agriculture of the Kurgan region, and a primary statistical data collected by the questionnaires at the farm-gate level in 2015-2016. The questionnaires were devoted to the following tasks: (1) assessment of the current state and perspectives of the farmer's collaboration with the partners – producers of similar products, suppliers, processors and retailers, (2) specification of a favorable level of available institutional environment, in which cooperatives are operating, (3) determination of alternative models concerning collaboration and cooperation in agricultural economics. We used a variety of qualitative and quantitative methods to identify the formal and informal institutional environment and to determine the effectiveness of cooperative activities in this environment. We analyze the formal institutional environment by thoroughly describing cooperative legislation in Russia. Analysis and assessment of informal institutions, e.g. the impact of farmers' collaboration and cooperation on their performance, the readiness of farmers to join different types of organizations, is done on the basis of farmers' own opinions. Farmers here are a proxy for small agricultural producers. Analysis of parameters characterizing the functioning of agricultural cooperatives is made using the standard indicators of organizational effectiveness. Apart from the indicators of agricultural cooperatives' functioning in the Kurgan region, we additionally employed the elements

of SWOT analysis to determine constraints and future stimulus for cooperative development. As a result, the reasons for low effectiveness of cooperative activities are determined. The reasons concern both the organizational problems of the cooperatives, as well as their institutional environment.

III. RESULTS

Analyzing the formal institutions, one have to admit that a lot of amendments were made to the cooperative legislation within the last several years, and new state support initiatives were introduced for agricultural cooperatives, e.g. the expansion of the direct purpose subsidies, grants and other types of financial support. However, the statements implicated in the Federal Law No. 193 "About agricultural cooperation", regulating cooperative activities, create the circumstances hindering cooperative innovations, implementation of modern financial instruments, and therefore the increase of income [4]. Such legislative statements are, for example, the following: 1) the major cooperative principles, which do not relate cooperative income, participation and control, to the amount of the shared capital, reduce members' investment activities; 2) poor specification of the ownership conditions hinders cooperative business; 3) poorly regulated maintenance and disposal of property rights constraints desire of larger agricultural producers to join cooperatives, and rise a threat of larger members to exit cooperatives; 4) mechanism of income distribution weakens commercial incentives of cooperative members and reduces comparative advantages of cooperatives; 5) restricted dividends for the additional equity payments hinder the investment process.

As the literature review results indicate, the most significant obstacles to agricultural cooperation development are the quality of the informal institutional environment. Particularly one can emphasize the low level of trust among production participants, the lack (or weakness) of motivation to work together according to cooperative (democratic) principles, and the many risks of opportunistic behavior of partners, etc. [1, 5, 6]. We estimate the household heads' readiness for collaboration and cooperation based on the respondents' view received during a survey (2015-2016) in the Kurgan region (Table I).

TABLE I. READINESS OF FARMERS TO JOIN AN AGRICULTURAL COOPERATIVE

Are you familiar with cooperative activity?	Do you know where cooperatives in the Kurgan region are operating?	Are you a member of a cooperative?	Would you like to become (to stay) a member of a cooperative?	Farmer's income in 2014, thousands of rubles (on average)	The size of a household plot, ha (on average)
Yes – 76	Yes – 49	Yes – 6	Yes – 5	830	1178
		No – 43	No – 1	16500	450
			Yes – 7	2298	620
	No – 27	Yes – 0	No – 36	1093	681
			Yes – 18	533	288
		No – 27	No – 9	2431	400

Source: Analysis conducted in preparation for the presentation at ICA - CCR European Research Conference. Berlin 21.08 - 23.08.2019 (Golovina S., Nilsson J., Wolz A., Hess S. "Why government support of Russian agricultural cooperatives fails to achieve its objectives")

172 respondents were interviewed, but the only 158 questionnaires were complete and therefore accepted for the further analysis. According to the survey results, less than half (48%) of the respondents are familiar with organization of cooperative activities. However, only 30 farmers out of the total number of those, who have some knowledge about cooperative organizations in agriculture, have the intention to become members, and only 18 of them have a weak idea of

the existence of agricultural cooperatives within the area they live in. Out of those, who have knowledge on cooperatives operating in the Kurgan region (49 out of 76 respondents), only 12 respondents (24%) expressed their willingness to join an existing agricultural cooperative or to continue to participate in cooperative activities. Moreover, the majority of the respondents give a negative answer concerning the current and potential participation in cooperative activities (46 out of

76 people). These farms were characterized by an average income of 1,689 thousand of rubles per year, and an average farm size of 621 ha. Those who are already members of cooperatives (5 out of 76 respondents) on average have low income level, i.e. about 830 thousands of rubles per year, and an average farm size of 1178 ha, which indicates a low effectiveness of their activities. Nevertheless, some positive changes in the informal institutional environment, in which agricultural consumer cooperatives were founded and are operating, are still observed. First, agricultural producers are becoming more aware of the possibilities and procedures for creating cooperatives; second, agricultural producers adequately perceive state initiatives (and the used support tools) to create cooperative organizations in rural areas [7]. Yet, the fact that the government initiatives do not indicate significant results, the forecasts for the future are still quite positive [8].

The effectiveness of agricultural cooperative's performance in the Kurgan region can be estimated by generally accepted indicators calculated using official operational statistics of their functioning (number of organizations, number of members, specialization of activities, volume of products sold, etc.), and some more detailed information, received in the Department of Agriculture of the Kurgan region (authorized capital, cost of fixed assets, financial performance etc.). Only those cooperatives, which submit their financial reports to the Department of Agriculture (the majority of existing cooperatives in the Kurgan region), were considered in further analyses. Statistics indicate that the amount of existing, but non-functioning cooperatives by 2013 was about 60%, and by 2018 it reduced to 30%, however, is still quite high (Table II).

TABLE II. THE AMOUNT OF AGRICULTURAL COOPERATIVES IN THE KURGAN REGION (BY THE END OF THE YEAR)

Yeas	Total		Including			
	registered	working	processing cooperatives		supply and sales cooperatives	
			registered	working	registered	working
2013	14	6	2	1	12	5
2014	13	5	2	1	11	4
2015	12	5	2	1	10	4
2016	14	7	6	4	8	3
2017	20	15	11	10	9	5
2018	21	15	13	10	8	5

Source: Data from the Department of Agriculture, the Kurgan region.

The state support for cooperatives, initiated by the President and the Government of the Russian Federation in 2016, is linked to the previous political measures. Thus, the priority National Project "Development of the agricultural sector" in 2006 was also aimed at stimulating the creation of vertical type cooperatives in domestic agriculture. However, many newly created cooperatives existed only formally, and were not working by fact. Thus, in 2009 out of the total number of agricultural cooperatives registered in Russian Federation, only 65% were operating. 63.4% of them were supply and sales cooperatives, 71.5% were credit cooperatives, and 57.0% were processing cooperatives. Ten cooperatives out of the 21 set-up in the Kurgan Region, were not functioning already by the 1st of January 2009 [9]. As a result, despite the significant volumes of the government

financial assistance (also in a form of soft loans), the number of active agricultural cooperatives across regions of Russian Federation remained insignificant, and the performance indicators were extremely low [10]. In subsequent years, the situation has not changed by much, especially what concerns the active cooperatives.

The dynamics of the development of agricultural cooperation in the Kurgan region largely coincides with the whole Russian trend. On the one hand, statistics demonstrate that the number of cooperatives is not stable (Table II). On the other hand, however, a significantly positive trend in the number of members of agricultural cooperatives is detected in the recent years (Table III).

TABLE III. DYNAMICS OF THE NUMBER OF MEMBERS IN AGRICULTURAL COOPERATIVE

Indicator	2013	2014	2015	2016	2017	2018
Number of agricultural cooperatives submitting reports to the Ministry of agriculture	5	5	5	4	11	12
The share of reporting cooperatives in the total number of cooperatives	83	100	100	57	73	80
Total number of cooperative members by the end of the year, entities	27	27	27	25	155	252
including: small households	17	17	13	13	112	122
farmers	2	2	2	2	26	100
agricultural organizations	6	6	6	6	10	14
agricultural cooperatives					4	5
others	2	2	6	4	3	11

Source: Data from the Department of Agriculture, the Kurgan region.

According to this statistics, small households and farmers are increasing within the number of members of cooperatives. Many cooperatives are created with the participation of relatively large agricultural producers (agricultural organizations). However, the structure of the members of the presented agricultural cooperatives is a subject of fluctuations. The share of farms from 2013 to 2015 has reduced, then it increases significantly to 72% in 2017, but a year later, in 2018, it decreases again up to 50%. The share of agricultural organizations has significantly reduced (especially in 2017-2018) due to the active participation of small agricultural

producers. The share of farmers-members of agricultural cooperatives increases significantly from 7% in 2013 to 48% in 2018.

However, the current growth in the number of cooperative members is not sufficient to gain competitive advantages according to the economies of scale. The size of the mutual funds of all cooperatives submitting reports to the Ministry of Agriculture (inflation-adjusted) increases by 2.7 times. But the average increase in mutual funds per a single cooperative is modest – only about 1.2 times. This, of course, limits the

possibilities of financial activities and production expansion (Table IV).

The average annual cost of fixed assets increases by almost five times in 2018 compared to the previous year due to the active state support, aimed at subsidizing technical and material base of cooperatives. Although in previous years it

remains at a relatively stable level. Among the increasing number of agricultural consumer cooperatives, the share of both profitable and unprofitable organizations is growing equally. The income of studied cooperatives increases since 2013 almost twice. The number of cooperatives increases more than twice (from 5 to 12).

TABLE IV. DYNAMICS OF THE NUMBER OF MEMBERS IN AGRICULTURAL COOPERATIVE

Indicator	2013	2014	2015	2016	2017	2018
Total number of agricultural cooperatives (units)	5	5	5	4	11	12
Size of cooperative mutual fund, thousands of ruble	1144	2530	1530	1570	2196	3125
Revenue, thousands of ruble	45103	56631	25853	30937	38754	74061
Amount of profitable coops, units	3	4	3	1	6	6
Profit, thousands of ruble	475	467	502	99	21895	6012
Amount of unprofitable cooperatives, units	2	1	2	3	5	6
Sum of loss, thousands of ruble	2081	178	198	1468	115	4997
Number of members, units	27	27	27	25	155	252
Average value of fixed assets per year, thousands of ruble	354.5	1859.5	4295.5	4153	4436	21574

Source: Data from the Department of Agriculture, the Kurgan region.

Cooperatives voluntarily submit reports to the Department of Agriculture. Reports are usually submitted by cooperatives, which received state support, or pretending to receive it. Thus, every year the number of cooperatives, submitting their data,

vary. Therefore, it is reasonable to consider the relative indicators (for a single unit) of cooperative performance (Table V).

TABLE V. RELATIVE INDICATORS OF COOPERATIVE PERFORMANCE

Indicator	2013	2014	2015	2016	2017	2018
Revenue of one cooperative, thousands of ruble	9020.6	11326.2	5170.6	7734.3	3523.1	14812.2
Capital productivity, rubles	30,5	6,0	7,5	7,5	18,7	3,4
Profits from sales received by one cooperative, thousands of ruble	-827.4	-277.0	480.0	-116.8	18.1	-467.6
Net profit received by one cooperative, thousands of ruble	-339.4	47.4	55,2	-431.5	1832.0	69.6
Cost-effectiveness, % (by sales profits)	-9.0	-2.5	12,1	-1.6	0.6	-3.3
Cost-effectiveness, % (by net profits)	-3.7	0,4	1,9	-6,0	58,8	0,5
Sales effectiveness, % (by sales profits)	-9.2	-2,5	9,3	-1,5	0,5	-3,2

Source: Data from the Department of Agriculture, the Kurgan region.

Weighted-average performance indexes of cooperatives give a more representative picture of their activity, allowing us to identify a number of important results. First, the revenue of one cooperative does not have a clear trend, changing annually either upwards or downwards. The average level of revenue has reached 14 millions of ruble in 2018 due to the government support measures. Second, cooperative profit indicators, including sales profits and net profits, are unstable. Thus, each cooperative on average received a loss from sales in an amount of almost 468 thousand rubles, and at the same time a positive value of net profit in an amount of roughly 70 thousands of ruble in 2018; Third, cooperatives' performance in terms of sales profits and net profits has a similar dynamics to the previous indicator. Nevertheless, some positive trends in cooperative cost-effectiveness, calculated by the net profits, should be noted. The cost-effectiveness indicator, calculated by the net profits, sharply increases in 2017. This might be explained by the faster growth rates of the net profits, compared to the number of cooperatives (46.1 times against 2.2 times). Within the period of 2013-2018, the highest rates per a single cooperative are given in 2015, and the second highest values were recorded in 2017. These years indicate the highest effectiveness of cooperative performance.

It is, however, obvious that cooperatives in the Kurgan region did not occupy a significant market niche, which they could have gained using the government support and a rich Russian and international theoretical and practical experience. Obviously, the indicators of cooperative performance require a thorough analysis. Helmerger (1966), analyzing modern tendencies of cooperatives development, effectiveness of their

activities in incomplete information and high risks, evolutionary perspectives of cooperatives in the future, etc., called for considering both internal and external factors of cooperative performance. The internal constraints for the cooperative development he blames to be a lack of capital and contradictions between the members. The external constraints should be then – the legislation environment, technological and institutional factors [11].

Reasons for the ineffectiveness of functioning of agricultural cooperatives were determined many years ago yet by the founders of cooperative theory. However, they are still important in modern times. According to Helmerger (1966), low level of financial investments due to low income of its members and a poor use of modern financial instruments, is the major reason for the low effectiveness and low competitiveness of agricultural cooperatives in comparison with investment-oriented companies. Cooperatives in the Kurgan region acquire significant problems in attracting financial resources. As it was already mentioned, the amount of cooperative's mutual capital is not large enough for renewal and extension of its material and technical base. The average value for this indicator has shown 230 thousands of ruble in 2013, and only 200 thousands of ruble in 2018. The incomes from the cooperative basic activities increase slowly, e.g. by 1.6 times from 2013 to 2018, while the number of cooperatives increased by 2.2 times. Credit resources from internal (members) and external (lending institutions) sources are poorly used. Lending institutions are not always available for issuing loans to agricultural cooperatives, financial resources of their members are often restricted (Table VI).

Traditional cooperative principles, incorporated in the activity of agricultural cooperatives in Russia do not allow them to use a wide range of modern financial instruments to enlarge their financial opportunities. Such opportunities might be the following: to emit cooperative's own securities; to make transactions on the financial and stock markets (today cooperatives are only allowed to keep funds on the current and

deposit bank accounts and to buy government and municipal bonds); to draw up resources in a form of loans from private persons and companies, who are not members of cooperatives. Thus, the major problems, hindering the sustainable development of agricultural cooperation, i.e. the financial constraints in rapidly changing technological environment, cannot be solved by the traditional cooperative model [12].

TABLE VI. DYNAMICS OF CAPITAL FUNDS FORMATION IN COOPERATIVES (BY THE END OF THE YEAR), THOUSANDS OF RUBLE

Indicator	2013	2014	2015	2016	2017	2018	2018 to 2013, %
Revenue	45103	56631	25853	30937	83161	74061	164.5
Drawn loans	38190	57149	48326	34427	5432	57662	150.9
including: from members and associated members	1480	-	-	-	-	11129	> 7.5 times
from cooperatives of higher levels	-	55513	45136	31570	5270	1890	x
Drawn credits	-	380	-	-	-	-	x
Granted loans	20590	55337	49732	13965	-	-	x
Interest charges	6305	-	8925	5469	6930	5829	92
Financial contributions to members	890	386	-	237	-	-	x
The amount of mutual funds	1144	2530	1530	1570	2196	3125	273

Source: Data from the Department of Agriculture, the Kurgan region

The major advantage of a traditional cooperative model is the economies of scale, which is realized in case of a significant number of cooperative members, or at least if some members are large in their production volume. In the Kurgan region the situation is so, that the majority of cooperatives (both existing and newly created) are characterized by a small number of small-sized members. In such conditions traditional cooperative principles, e.g. the open membership, unlimited transactions, "one member – one vote", do not motivate to a rapid business expansion and deprive cooperative members of potential competitive advantages. Many newly created cooperatives in the Kurgan region do not fulfill their potential functions, they only use the state subsidies just to continue to exist.

environment. If a traditional cooperative model, set-up in a "bottom-up" or "top-down" manner, arise in an inadequate environment, it cannot realize its potential. Moreover, widely announced principles of a traditional model become sources of inefficient functioning of a cooperative. Cooperative members, the board of directors, a chairman of a cooperative, have to deal with these contradictions trying to solve them, which often results in breaking down cooperative principles or even cooperative legislation norms.

Reasons for low effectiveness of cooperative functioning in the Kurgan region, as well as in Russia as a whole, rise up in confrontation between the traditional cooperative model, implemented by the state initiatives, and the modern formal and informal institutional environment. Low level of trust, lack of farmers' experience in cooperative activities and in cooperative management, and poorly specified property rights lead to the high transaction costs associated with the "agent problem" and significant risks of opportunistic behavior. Traditional cooperative principles, within the current macroeconomic and institutional environment, do not provide cooperatives with competitive advantages. Instead they rather lead to high financial risks, significant lack of capital, low incentives for modern technologies implementation, difficulties in attracting investment for efficient operations and development of cooperative organizations. As a result, existing economic, institutional, political, socio-psychological factors block the advantages of the traditional form of organizing a cooperative business, and in general - the development of agricultural cooperatives in modern Russia.

TABLE VII. TRADITIONAL COOPERATIVE PRINCIPLES IN MODERN RUSSIAN ENVIRONMENT

Cooperative principle	Potential comparative advantage	Consequences
1. Voluntary and open membership.	Economies of scale.	Inclusion of weak and non-competitive members into cooperatives.
2. Democratic member control.	Interests of all cooperative members are considered, their potential in management and organization of cooperative activities is maximized.	Risk of sub-optimal decisions due to the lack of experience and weak professional knowledge of some members. Different size members might have conflict of interests.
3. Outsiders (non-members) are restricted to participate in cooperative activities.	Cooperative's priority is to serve members first, and in a second term - outsiders.	Lack of financial resources. Inability to achieve goals in existing environment.
4. Member contributions are proportional to their activities in a cooperative.	The volume of member transactions in a cooperative is linked with the income received and with the size of the share contributions.	Low income from patronage does not stimulate active participation in the cooperative activities and leads to low funding.
5. Full legal liability in a cooperative.	Motivation for the effective functioning of a cooperative and its viability.	Readiness to become a member of a cooperative is low due to the high risks, heterogeneity of interests, low trust. Weak desire of members to invest in a common property.

Source: authors' own presentation, results of empirical analysis.

Low efficiency of a traditional cooperative model implemented in Russian rural area is confirmed by the obvious contradictions between the fundamental values of a traditional model and realities of the domestic economy. (Table VII).

The principle of a voluntary and open membership is a basic foundation for any cooperative. In agricultural

Staatz (1989) defines a cooperative as an autonomous association of individuals who voluntarily collaborate to achieve common economic, social and cultural goals through a democratically controlled enterprise [13]. Such organizations contribute to the achievements of their goals only in case they operate in a specific institutional

cooperative this principle is a condition for the rapid and unlimited growth in terms of the number of its members, and, consequently, financial and other opportunities. Returns to scale effect, produced by a cooperative organization, provides its members with competitive advantages in terms of reducing costs, reasonable prices, and lobbying opportunities. However, results of the deep interviews show, that the new members are often allowed to join a cooperative in case their performance indicators reflect the expectations of the other members, or the managers of this cooperative. Violating the principle of openness, cooperative, thus, protects itself from the possible consequences of the opportunistic behavior of irresponsible and inefficient participants. This is done with the only purpose to increase the efficiency of cooperative's activities and ensure its viability.

Next important principle of a traditional cooperative is a democratic member control. This principle indicates that a cooperative is a democratic organization managed by its members according to the principle of "one member - one vote". Thus, it seeks to take interests of all members into account, and to use their professional experience in terms of organizing activities and control. But in case some members are indifferent in organizing activities and control, or they don't have a necessary experience and professional training, they could therefore make suboptimal decisions that would cause significant harm to a cooperative. In order to avoid this, the chairman of a cooperative and its board, overtake cooperative decision-making, employ professional managers trying to achieve a more efficient organizational performance.

The rule of the full subsidiary liability is a heavy obstacle to improve the efficiency of a cooperative. However, it belongs to the traditional cooperative model. This rule implies the full financial responsibility of each member of a cooperative for all debts and creditor's requirement of a cooperative, even those occurred due to the mismanagement and leadership failures. The high likelihood of such situations does not motivate cooperatives to attract credit resources to expand their activities. This rule limits cooperatives' possibilities to use external financial resources. Low incomes from primary and auxiliary activities, limited internal sources of financing, the inability to use many modern financial instruments, e.g. issuance of shares by a cooperative, lead to the emergence of various formal and informal innovations, which differentiate modern agricultural cooperatives from their traditional model. The common example might be the case when the members gradually redeem cooperative's purchased equipment or technologies with the purpose to individualize the property and exclude opportunistic behavior of members. As a result, some agricultural cooperatives, characterized by economic sustainability and striving for continuous development, often modify organizational structure by introducing various innovations regarding position of cooperative members as patrons, managers and owners in a way that ignores some traditional principles [14].

IV. CONCLUSIONS

Results of this study show that the reason of the low efficiency of cooperative performance is the inconsistency of organizational model incorporated into cooperative activities with the characteristics of the existing formal and informal institutional environment. The analysis of economic performance of agricultural cooperatives in the Kurgan region has shown that a traditional cooperative model, incorporated, according to the government initiatives, into the newly created

cooperatives, is characterized by the small-scale cooperatives, which are not able to use the advantage of the economies of scale. Such a structure therefore leads to the lack of capital, lack of incentives and motivation for the use of modern technologies, and therefore to a low competitiveness of cooperative organizations.

As a result, the traditional cooperative principles, e.g. the voluntary and open membership, unlimited operations in a cooperative, democratic member control, do not stimulate an intensive business development or an increase in its income, do not significantly reduce production and transaction costs, and do not provide participants with competitive advantages. Instead, the majority of agricultural cooperatives, newly created in the Kurgan region, either exist formally or continue to run until being supported by the government subsidies.

To improve the efficiency of cooperatives, it is necessary to weaken some of traditional cooperative principles. For that, the following novelties into the basic concept of an agricultural cooperative should be introduced: (1) oblige the new members to buy the rights to participate in cooperative operations at a price that reflects the market value of the cooperative's assets and its market position; 2) allow financial contributions to the cooperative capital from the external shareholders (non-members); 3) distribute profits among the members not only according to the volume of patronage, but also in accordance with the volume of their investments in the cooperative; 4) develop contracts with cooperative members, providing for strict description of delivery conditions, fixing the volume and quality of products purchased from members; 5) abandon the idea of equality, exclude inefficient producers; 6) individualize control (by introducing differentiation in voting procedures) and property (by modern financial instruments - stocks, delivery rights, etc.). This will expand the possibilities of attracting financial resources and weaken existing restrictions on the growth of cooperative capital.

Members of new cooperative models, e.g. entrepreneurial cooperatives, act simultaneously as clients (patrons) and active investors. That is why such cooperatives have significant potential in expanding their businesses, accessing new markets, gaining significant competitive advantages. It is obvious, that the principles of these new models should be introduced into domestic cooperative practices. Based on such models, cooperative activity focuses on all levels of the technological chain, and not only on the production or sales of agricultural raw materials or farm products. Cooperative activity expands horizontally and vertically, using external financing, product differentiation, and other attributes of modern business strategies. Cooperatives of an entrepreneurial type adapt their internal structure to new trends and fluctuations in agriculture within the conditions of economic globalization, rapid agricultural industrialization and development of engineering and technology. Such a new model of a cooperative should therefore be considered as a unique artifact, which organizational structure does not only stimulate the investment activity of its members, reducing risks in agricultural production, but also contributes to cultivation of multifunctional cooperative activities, development of rural infrastructure, increase of employment and incomes of rural residents, preservation of rural communities and a special rural mentality.

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