
Theoretical and Methodological Fundamentals of Associated Forms of Agricultural Business

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Abstract:

The paper is devoted to the historical fundamentals of entrepreneurship phenomenon emerging including the agricultural sector. Authors studied questions on establishing and development of agricultural business development. Primary functions of agricultural business such as resource, organizational, and creative were highlighted.

Authors proved that successful entrepreneur management is not possible without readiness to innovations and changes on the agricultural market. Moreover, associated forms of agricultural business are revealed as socioeconomic fundamentals of prosperous private enterprises development. Authors stressed the agricultural business to be a result of vertical (agro-industrial) integration leading to the specific ownership framework transforming into forms of equity.

Authors rely upon the fact that associate forms of entrepreneurship is caused by high risk and lack of entrepreneurs' financial resources, skills, experience, and adequate partnership.

Keywords: Agriculture, entrepreneurship, agricultural business, investment, financial resources, funds, management, associated forms.

JEL Classification Codes: Q10, Q12, Q19

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Introduction

New era of financial activity in Russia is caused by increasing of entrepreneurship in all sectors of economy. Agricultural business plays a key role in market economy. It was agricultural reforms which led to further democratization of any society. This feature and functional purpose of agricultural business is particularly relevant for those countries who try to establish the market economy in the agricultural sector. The ability of agricultural business to the formation of market structure leads to its reborn and makes it a high-priority measure in reforming the Russian economy.

The role and functions of the agricultural business is not only being a milestone in economic development of society, but also promoting the formation of diversified national market leading to deeper integration of enterprises into the agricultural sector. As a result, transformation of agricultural form into the integrated national agricultural market preserving the agro-industrial capital and food security of the state becomes possible. Development of agricultural entrepreneurship leads to lots of problems caused both by objective (general state of economy) and subjective factors.

Problems of agricultural business development were discussed by Buzdalov I., Burdenniy I., Denisova N., Kirilenko O., Kostyaev A., Kuznetsov V., Mazloev M., Oleynik D., Savchenko E., Serkov A., Uzun V., Ushachev I., Shagaida N. But still there is no analysis and detailed definitions of agricultural business.

Materials and methods

Development of agricultural business in Russia indicates a set of difficulties. Firstly, we should note the lack of comfortable socioeconomic factors in Russia. We consider the imperfection of regulatory framework as a deterring factor of growth. Issues in business taxation framework become an ongoing problem. Development of agricultural business suffers great impact of institutional organizational and technical environment that allows the entrepreneur establishing business relations and conducting operations.

Entrepreneurship takes major place in organizational and technical sphere and could be characterized by number of organizational and economic features like:

- legal support of business activity;
- public labour division;
- economic and legal sovereignty of manufacturers;
- interrelation of all agricultural business' subjects through the marketplace;
- market competition.

Lack of proper business environment may lead to crises in agriculture sector. Inability of implementing the business interest becomes an obstacle in the further

agriculture business development, thus, the revival of entrepreneurship and, as a result, the agricultural business is impossible without drastic measures taken in business environment. (Aleksiychuk *et al.*, 2000).

Entrepreneurship was widely spread since Ancient Rome and Greece, and approaches in evaluating the nature of entrepreneurship have been evolved for centuries. Initially, only foreign traders were considered as entrepreneurs. Later, the scope of entrepreneurship definitions was extended, and managers of major manufacturing and construction projects were included.

Historically, conducting of economic transactions to make profit was born and kept carrying on as an activity of individuals in making deals with suppliers and consumers using the relevant equipment and skills. All of the deals were made by individuals on their own behalf and expense. Therefore, they kept their own business with no legal entity establishing.

Later on, in the Renaissance, when scopes of business activity were extended, the turnover of business was also increased and business risks' probability became a key question. Thus, the owners of large or fast-growing enterprises that have to keep short and medium-term debt at low level, established legal entities, managed and controlled on their own. Owners in this case are ceased to be liable for debts, and the liability could be revealed and applied only through the courts. Moreover, the access to revenue from the invested capital was complicated and now is a property of the enterprise, legally equal to the entrepreneur's one.

However, the key achievement is a more efficient and simple way to raise affiliate and loan capital. And, as a consequence, small business started evolving rapidly especially in the agricultural sector. Notably, that manufacturing business still exists in developed countries.

France was the first who applied the term "entrepreneurship" in the XIII century. Even then, the activity of an entrepreneur was not confined by the trade, but was equated to the "owner" term. The "entrepreneur" term was first introduced in writings due to the universal dictionary of commerce published in Paris in 1723. Thus, France was considered as the entrepreneurship term's origin ("entreprendre" – to make attempts, to get down to business).

XVIII century was the time when R. Cantillon applied the term of entrepreneurship to the man with uncertain incomes. Development of economy caused extension of entrepreneurship to the underground sector as well as trade and exchange was spread to the legal manufacturing sector. First entrepreneurs were the major owners. Therefore, entrepreneurs were characterized by classical economists as owners who take risks for the profit.

In 1800 J-B Say highlighted the key role of entrepreneurs in the vector of economy.

Moreover, he shifted economic assets from less-efficient to most-efficient and profitable economic areas.

Fundamentals of the modern entrepreneurship term were set by Austrian school economists like W. Sombart, J. Schumpeter, F. Hayek, L. Mises who considered the entrepreneurship as a complex phenomenon featured by rational balance of factors, risk, focus on profit, capital and staff management skills.

Special role in development of the entrepreneurship theory was played by famous German sociologist M. Weber. He described the entrepreneur with traits like moderation, diligence, decisiveness, skills, persistence, and dedication. In Weber's point of view, accomplishment was defined as highest criteria of entrepreneur.

The entrepreneurship was widely considered by Austrian economists like C.Menger, F. von Wieser, E. Böhm-Bawerk to be an objective and significant socioeconomic phenomenon, flexibly reacting to changes in market economy by filling its gaps in technologies, goods, services, and other sectors.

Works of J. Schumpeter are considered a pinnacle of entrepreneurship theory's development. Studying the theory of economic development of capitalism, he highlighted the entrepreneur with the best social and culture features of a business person, shifting the scientific and technological development in the 20th century.

J. Schumpeter identified the entrepreneurship feature with the economic leadership and innovation. He considered manufacture as a specific stack of capital and labour. He also defined an objective of the entrepreneur, i.e. correct and effective solving of new tasks like improving the wealth, implementing innovative production and goods' applying methods, development of new markets, trade areas, suppliers, modifying the current framework of business entities and market in common. (Schumpeter, 1982).

We note that views at the entrepreneurship nature and meaning have evolved significantly, considering the practical experience of entrepreneurship and legal and economic conditions of its development (Table 1).

Table 1. *Evolution of views on fundamentals of entrepreneurship*

Period	Scientists and views on the entrepreneurship fundamentals
1	2
Middle Ages	Person engaged in foreign trade process; manager of parades and celebrations; person responsible for major manufacturing and construction projects
17 th century	A person who signed a contract with the state, accepting full financial responsibility for fulfilling the terms
1725	K. Cantillon, Entrepreneur is a man who runs a risk

1876	F. Walker, Entrepreneurs are a group of persons who earns an income for lending the capital due to their entrepreneurship skills
1934	J. Schumpeter, Entrepreneur is an innovator developing brand new technologies
1961	D. McClelland, Entrepreneur is a person who acts in moderate risk environment
1964	P. Drucker, Entrepreneur is a person with skills of applying new possibilities at maximum profit
1975	A. Shapiro, Entrepreneur is an initiative person organizing socioeconomic gears under risk
1983	G. Pinchot, Divided entrepreneurs into “intrepreneurs” and “antrepreneurs”. First act in terms of existing business. Second ones deal with establishing new entity

Note: Compilation based on Blinov A. (2007)

Foreign scientists have been developing entrepreneurship issues for years. Due to economic shocks of the 80th, there comes the necessity of distinguishing the Soviet entrepreneurship caused by intensification of economic development. It was a time when the role of entrepreneurship in economy was widely discussed.

Based on the legal milestones and practical features of entrepreneurship, we highlight the following as basic functions of entrepreneurship:

- resource i.e. mobilization of financial, labour, material, land, information, and intellectual resources;
- organizational i.e. managing the production and marketing process;
- creative i.e. innovation, providing of ideas, running a risk.

We consider an entrepreneur to be a high-performance owner and manager who is involved into the business directly. Business output should be either the property of entrepreneur or being assigned according to the strategy defined before. Our view is that status of owner is essential in agribusiness. Entrepreneur is not only an owner of production but also a manager of the business.

We consider the following as the subject of entrepreneurship in agricultural sphere:

- combination of production agents i.e. land, capital, technology, labour;
- combination of managerial, organizing, and interpersonal relations;
- information product as a benchmark of rational socioeconomic behavior of an entrepreneur.

Entrepreneurship is based on the set of obligatory conditions (Ivanov *et al.*, 2010). They are free choice of methods and ways of business activity as well as decision-making discretion. Entrepreneurship assumes responsibility for making decisions and consequences along with risk. Moreover, we consider commitment to the profit and success as an entrepreneurship feature too.

Agribusiness is a rather specific phenomenon peculiar for a single man as well as for group of persons. Entrepreneurship utilizes the principle of profit to number of persons contributed. The entrepreneur combines capital with the labour in a specific way to get an efficient return. Moreover, he makes amendments and brings innovations into life. We should note that agribusiness entrepreneurs usually need an extra funding, thus they have to access the external capital such as farmers and other entities. So, the sole agricultural entrepreneurship is a kind of agribusiness with the one owner and manager at the same time (Havlicek *et al.*, 2013; Breckova and Havlicek, 2013; Epifanova *et al.*, 2015).

The entrepreneur is personally liable for business debts. We can emphasize advantages of individual business such as no need to coordinate efforts with partners, maximum motivation, privacy, flexibility, rapid decision-making. Contrary to that we highlight disadvantages like difficulties in capital raising, unlimited liability, difficulties in labor division, and limited capabilities in scale of production, heavy physical activity and limited leisure time (Kovalenko *et al.*, 2016; Sultanova, and Chechina, 2016; Sibirskaya *et al.*, 2016; .

Requesting the external funding, the entrepreneur could have lack of skills in managing own business and financial flows. While making a decision in holding the associated capital the entrepreneur becomes a contributor in joint agribusiness entity. Thereby he could cooperate with other agribusiness-entrepreneurs. As the result, individual entrepreneurship transforms into associated forms of agribusiness (Ovchinnikov *et al.*, 2016; Zobov *et al.*, 2017).

Results

We stress that the key role in creating the organizational and economic frameworks of business belongs to the effective owners as subjects of integration processes, not to the number of founders and contributors. The total performance of business is affected not by the resources' provision but the reconciled interest of business parties. Thus, we conclude that analyzing the opportunities and potentiality of social and economic output of associated business in addition to prospects of transforming the existing forms of establishing the manufacturing, commodity-based, and financial business when transforming into associated forms.

Associated business is the form of partnership for the good of contributors. Due to best traditions of associated partnership the mutual assistance (credit cooperation) arose. In developed countries the associated business is a socioeconomic basis of successful individual agribusiness development. Moreover, it is of great importance not only for business but for social partnership in addition to being a form of capital's democratization resulting into the democratization of society.

When applying the definitions' and legal framework in defining the agribusiness entities, we could divide them into groups: actually, entities, business societies, and

cooperatives. Considering the impact of incorporation form on the horizontal and vertical integration, we could discuss the features of individual and associated entrepreneurship.

Yet the integration leads to emerging of specific liability-free forms of business, fairly often created as non-commercial entities or associated forms of business' assisting. We deem advisable noting that all forms of business inevitably interact to each other forming integrated membership frameworks.

The structure of agribusiness entities of Russia in 2015 is shown in Table 2.

Table 2. Structure of agribusiness entities in Russia in 2015

Type of business	Share in total, %
ОАО (Publicity Held Companies)	5,7
ЗАО (Private Held Companies)	6,9
ООО (Limited Liability Companies)	54,5
Agricultural cooperatives	24,2
Collectivities	1,2
State entities	2,4
Others Другие (seed plots and stations, beekeeping)	5,1
Total:	100,0

Note: Based on data of Federal State Statistics Service and Ministry of Agriculture of Russia

Table follows that ООО's and agricultural cooperatives are the most common types of business. To sum up, we stress the following:

1. There are a number of views on the business' fundamentals. Economists either reveal the term only as an activity, or discuss it as economic relations when establishing own business, production and its maintenance for maximum profit.
2. Agribusiness has its own distinguishing features. Agricultural entrepreneurship is a framework resulting in establishing the entity by one or more effective owners including associated forms of ownership in the agricultural sector for the aims of profit. Agribusiness is a result of vertical (agro-industrial) integration.
3. Another feature of agribusiness is associated ownership. In contrast to other sectors, agro-industrial integration leads to the specific ownership framework transforming into the specific form of equity.
4. Associated forms of agribusiness could be established as a result of voluntary association of effective owners of capital, land, and funds. They emerge as a result of cooperation for joint activity, profit making, costs saving, and risk sharing purposes.
5. The need of associated business arises due to the lack of sufficient funds, assets, skills, benefits, technologies as well as inability of maintaining business acting alone, and avoiding entrepreneurial risk. Vertical (agro-industrial) integration turns to be a milestone of associated forms of business.

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