

Social capital in farms of Latvia

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The concept of social capital is analysed and a summary of theoretical discussion is presented. To explore the presence of social capital and its impact on economic performance in Zemgale region, we conducted two sociological surveys. We have found that development of farms there is influenced by membership in professional associations, unions, nongovernmental organizations and in cooperatives. The level of trust and social networks also influence the economic growth of farms. So the process of development is multiplex in character.

The major input in regional growth is made by farms that have social networks and informal activities not only in the local authority but also on the regional level. One of the ways to increase the social capital in Zemgale and also in Latvia is to establish a unified information centre. Highly effective would be also the strategic guidance of cooperatives and support in rural areas of the lifelong education system.

Key words: development, intellectual capital, liquidated farms, registered farms, social capital

INTRODUCTION

In our National Development Plan 2007–2013, a well educated and creative human is brought to the forefront as the main factor of development: “To achieve the high level of living characteristics of society and an individual of highly developed countries, our main resource is our population’s knowledge and wisdom, its efficient and targeted application”.

There is growing evidence that intellectual capital influences more and more the effectiveness of traditional resources. Individuals create society; connections among them are always in process and are based on mutual reciprocity and social networks. This interaction shows elements of social capital such as mutual trust, informal networks, cooperation and cohesion. Social capital is a rather poorly explored object of economical activities and regional development studies in Latvia. Analysis of effects that accompany better developed networks, trust and success of cooperation are still missing in many development researches.

The aim of the present research was to clarify the impact of rural entrepreneurs’ social capital on the economic performance of rural regions. Our tasks were to analyse the role of social capital in economic activities and to highlight the most important indicators of social capital; to conduct sociological surveys in rural areas, especially on farms, and to compile a model of enhancement of social capital.

We used monographic, sociological, abstract-logical, statistical and economic calculation methods.

The hypothesis is that farmers’ social capital influences their farm development and, indirectly, the development of regions.

RESULTS AND DISCUSSION

The development of a firm depends not only on its owners’ physical and human capital. Very important are also mutual liabilities which are connected with collaboration, trust, co-operation etc.

Initially, the concept of social capital was used in sociological researches, but recently this concept has been widely used in studies of the social context of organizations and companies, as well as of relationships among branches and inside organizations (Jacobs, 1965; Burt, 1992; Nahapiet, 1998).

Social capital influences the exchange rate of resources and their combinations among the organization’s structures, it has a positive effect on innovations (Tsai, Ghoshal, 1998). The different success of enterprises can be explained by interaction intensity among the actors of social networks (Adler, Kwon, 2002). Social capital can induce the productiveness of the enterprise. Also, it can help to lower costs significantly (Greve, 2003).

In Latvia, few scientists study the social capital in quite a narrow aspect. Till the beginning of the 21st century there were no studies on the role of social capital in economy. A contribution to the study of social capital has been made by publications of this paper’s authors (Pelše, 2003, 2004, 2006; Strīķis, Pelše, Leikučs, 2004, 2006).

While analysing and evaluating the literature, we made our own interpretation of social capital as all those goods in mutual relationships that are produced in networks of social structures and which influence the action of an individual agent (Pelše, 2006).

32% of Latvian population live in rural areas. Farming as the main occupation prevails in many rural areas. Farm is the

owner's property that produces agricultural goods, and the main production resource is land. In this research, agriculture is considered as a process of producing goods and not as the process of subsistence economy.

Since 1992, farming activities have been regulated by the law "On sole (family) proprietorships, farms or fishing enterprises and individual work". After the new Commercial Law came into effect, a new draft law, on farms and fishing enterprises has been prepared.

It is planned that all farms should be re-registered in a special register from 1 July 2007 till 31 December 2008; they should become businesses or be liquidated. Farming is the most popular type of entrepreneurship in rural areas of Latvia. The dynamics of farms is presented in Table 1. During 1992 and 1993 there was established the biggest part of all farms (50% and 15.2%, respectively), of those established till March 2007).

One fifth of all registered enterprises in Latvia are farms. Till March 2007 there were registered 38 000 farms. Nevertheless in the last few years there is a growing tendency to liquidate farms, especially in 2005 when 1413 or 26.6% of all farms ceased to function. In total, liquidated farms make about 14% of all ever registered farms. At the moment, in Latvia we have 32 562 registered farms.

During the present research, we made two surveys of the owners of farms in Zemgale (the first sample 207 and the second 196 respondents). The variables to show the development level of the farms were:

- used land area (ha); changes in used land area (ha) in the last 10 years;
- participating in the SAPARD (till May 2004);
- current economic situation of the farm;
- respondents opinion about their farm viability in the future.

Farmers' social capital indicators were:

- involvement in different social activities;

- cooperation and membership in associations;
- trust in people in general and in institutions.

The data were calculated using SPSS. To find the links among the variables we used the chi-square test, and the p-value approach was used for decision making. The data credibility rate was assumed at $\alpha = 0.05$. The statistical reliability coefficients Phi and Cramer's V were used to characterize relationships between two indications.

Analysing the data presented in Table 2, one can see that there is a relationship between the criteria of economic success: farmed land area, its changes; respondents' participation in different professional societies, associations, unions and farmers' participation in different public agricultural organisations – the p value is less than 0.05. There is also a relationship between farm viability and farmers' participation in professional societies, associations and unions ($\chi^2 = 6.513$), and SAPARD aid use and farmers' participation in public agricultural organisations ($\chi^2 = 6.343$), the p value is less than 0.05. The social capital indicators such as farmers' participation in local government working groups, organised sport activities and amateur bands are not useful for farm development because the p value is greater than 0.05, except for one case – a relationship emerges between farmers' participation in organised sport activities and farm viability – $\chi^2 = 6.343$ and is less than 0.05. Respondents' involvement in political parties and public activities of religious organisations was ascertained in the survey. Only 6 respondents out of 207 admitted to be involved in a political party or a party group, and only 8 respondents said to be involved in religious organisations, therefore these indicators are not included in Table 2.

Most of relationships emerge between the criteria selected to characterise the farms' development level and social capital indicators; the indicators of farmed land area and its changes point to the farmers' participation in public activities.

Farmers in Zemgale are engaged only in agricultural co-operatives. Presently in Latvia a few dozens of strong co-operatives have emerged, in which rural entrepreneurs trust.

Table 1. Registered and liquidated farms of Latvia

Years	Registered farms		Liquidated farms	
	During the year	% of total number	During the year	% of total number
1991	1758	4.6	–	–
1992	18962	50.0	7	0.1
1993	5773	15.2	9	0.2
1994	2990	7.9	5	0.1
1995	1981	5.2	41	0.8
1996	1109	2.9	71	1.3
1997	1323	3.5	151	2.8
1998	760	2.0	713	13.4
1999	672	1.8	462	8.7
2000	568	1.5	304	5.7
2001	387	1.0	400	7.5
2002	278	0.7	328	6.2
2003	346	0.9	386	7.3
2004	517	1.4	504	9.5
2005	243	0.6	1410	26.6
2006	162	0.4	443	8.4
2007 (14.03.)	42	0.1	71	1.3
Total	37867	100.0	5305	100.0

Source: Register of Enterprises of Latvia (14.03.2007) www.lursoft.lv, authors' calculation.

Table 2. Relation of public activities to farm growth criteria

Involvement of farm managers in public activities	Value	Farmed land area	Land area changes	SAPARD assistance use	Material position	Farm viability
In professional societies, unions, associations	p	0.000	0.001	0.083	0.680	0.039
	χ^2	27.772	18.623	2.998	0.771	6.513
In public agricultural organisations	p	0.000	0.001	0.012	0.378	0.094
	χ^2	53.453	18.378	6.343	1.946	4.729
In working groups tackling local government problems	p	0.312	0.532	0.625	0.061	0.615
	χ^2	5.938	3.157	0.239	5.587	0.973
In organised sport activities	p	0.188	0.2	0.061	0.23	0.045
	χ^2	7.473	5.991	3.514	2.939	6.193
In amateur bands	p	0.405	0.164	0.21	0.209	0.764
	χ^2	5.088	6.512	1.570	3.133	0.540

Source: calculations by the authors based on the survey results.

Note. Values showing a significant relationship among the factors are in bold.

In the survey, the authors wished to know the respondents' opinion on whether co-operatives improve or hinder farmers' performance. 123 respondents out of 207 believed that co-operatives improve farmers' performance, 5 thought that they hinder, 46 were convinced that there is no effect, and 33 respondents had no opinion on this question. After assessing the survey results, we had to conclude that relationships exist between farmers' engagement in co-operatives and farm development criteria because there are relationships between all the indicators: the p value is less than 0.05, the chi-square value is within the range of 7.699 (farm viability) and 39.249 (farmed land area). Besides, the strongest relationship was observed between the indicator of farmed land area and farmers' engagement in co-operatives. The authors explain this fact by Cramer's $V = 0.435$; the weakest association was observed between farmers' engagement in co-operatives and farm viability – Cramer's $V = 0.193$ (Table 3).

To examine relationships between farm growth criteria and farmers' trust, two questions were included in the survey in

which farmers were questioned about several objects important to farmers from the point of view of trust. One of the questions pointed to whether people can be trusted on the whole; in this case the gained results showed no relation to farm growth. The results gained from the second question are shown in Table 4. Two economic success criteria from those selected are not pre-

Table 3. Relationships between indicators characterizing farm growth and farmers' participation in co-operatives

Indicators characterizing economic growth of farms	Values		Cramer's V
	χ^2	p value	
Farmed land area	39.249	0.000	0.435
Land area changes	31.802	0.000	0.392
Use of SAPARD assistance	17.260	0.000	0.289
Material position	10.310	0.006	0.223
Farm viability	7.699	0.021	0.193

Source: calculations by the authors based on the survey results.

Note. Values showing a significant relationship among the factors are in bold.

Table 4. Relationships between farm growth criteria and farmers' trust in different institutions

Trust in institutions	Value	Use of SAPARD assistance	Material position	Farm viability
Central government	p	0.475	0.102	0.026
	χ^2	1.489	7.720	11.059
Local government	p	0.748	0.121	0.092
	χ^2	0.580	7.304	7.986
European Union	p	0.536	0.001	0.001
	χ^2	1.248	17.945	18.427
Law enforcement institutions	p	0.970	0.213	0.201
	χ^2	0.060	5.823	5.972
Banking system	p	0.254	0.248	0.000
	χ^2	2.743	5.405	21.762
Public organisations	p	0.035	0.039	0.012
	χ^2	6.678	10.060	12.915
Church, religious organisations	p	0.736	0.650	0.709
	χ^2	0.613	2.471	2.143
Mass media	p	0.668	0.050	0.388
	χ^2	0.808	9.491	4.138
Educational system	p	0.423	0.009	0.042
	χ^2	1.722	13.563	9.923

Source: calculations by the authors based on the survey results.

Note. Values determining a relationship among the factors are in bold.

sented in the table: farmed land area and its changes over the recent years because, according to the survey results, no relationships were identified between these criteria and farmers' trust in different institutions.

In the respondents' view, the strongest relationships exist between their farms' viability and trust in institutions: the central government ($\chi^2 = 11.059$), the European Union ($\chi^2 = 18.427$), the banking system ($\chi^2 = 21.762$), public organisations ($\chi^2 = 12.915$) and the national educational system ($\chi^2 = 9.923$); the p values were less than 0.05. Some relationships exist between the respondents' current material position and their trust in institutions: the European Union ($\chi^2 = 17.945$), public organisations ($\chi^2 = 10.060$), the mass media ($\chi^2 = 9.491$) and the national educational system ($\chi^2 = 13.563$); in all cases the p values were less than 0.05. In case of using the SAPARD assistance by farmers, there is only one relationship regarding their trust in public organisations with the p value = 0.035 and the chi-square value equal to 6.678.

According to the gained data, the economic success of rural entrepreneurs is not impacted by their trust or distrust in local governments, law enforcement institutions and religious organizations: the chi-square value was within the range 0.060 to 7.986 and the p value varied from 0.201 to 0.970.

Analysis of our data shows that development of social capital is important for individual agents, their economic activities and consequently also to the economics of the regional space they are located in. Each farmers' activities influence his / her family as well as others who are involved in this business. If farmers' social capital is well developed, it has a positive effect on all workers in a farm, gives additional financial capital, a chance to improve the human capital, i. e. it has a positive effect on regional economics. Also, it is important to evaluate potential instruments of **social capital enhancement**, taking into account target audience, time, situation and territory.

Thus, the understanding of social capital is substantially broadened because thanks to networking, there is an opportunity to:

- increase productivity and profit;
- gain new business partners;
- get more information;
- develop collaboration and co-operation;
- get a sense of security, trust, etc.

All these gains are provided by social capital. Such a definition is more appropriate for economic studies, because the economic activities of people and their motivation for economic activities are placed in the centre of economic theory.

In our research, we choose the possible scenarios of farmers' social capital enhancement:

- creation of a unified information centre;
- strategic guidance of cooperatives;
- support to the system of lifelong education in rural areas;
- preservation of the current situation.

The activity field of those scenarios in fact overrun one region's limits and has by far a wider range.

In order to estimate the possible scenarios of social capital enhancement and their development perspectives in farms, there was made a hierarchical analysis based on five experts' opinion. One of the preconditions for choosing experts was that

each of them should be an expert in farm activities on different spatial levels.

The experts supposed establishing a unified information centre to be the most optimal scenario in enhancing the farmers' social capital. The second best scenario is strategic guidance of cooperatives, and the third position belong to supporting the system of lifelong education for farmers. These scenarios have quite equal coordinates, and this does not exclude the possibility of their simultaneous realization.

CONCLUSIONS

1. It becomes more and more important to study new types of economical resources; one of these is social capital. Social capital is all those goods in mutual relationships that are created in networks of social structures and which influence the action of an individual agent.

2. We state that in Zemgale, a farmer's social capital has an impact on his economical performance, because there is a strong correlation between farm development variables and these variables of social capital:

- farmers' involvement in professional associations, unions and different societal organizations;
- membership in agricultural cooperatives;
- institutional trust.

3. The major input in regional growth make the farms that have social networks and informal social activities not only on the level of local authority, but also on the regional level.

4. One of the best scenarios to support and build the farmers' social capital in Zemgale is establishing a unified information centre.

Nevertheless there are also two other scenarios which win quite equal support from experts:

- 5. Strategic guidance of cooperatives;
- 6. Supporting the system of lifelong education in rural areas.

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SOCIALINIS ŪKIŲ KAPITALAS LATVIJOJE

S a n t r a u k a

Pateikiami apibendrinti atlikto socialinio kapitalo Latvijoje tyrimo rezultatai. Socialiniam kapitalui ir jo poveikiui ekonominei veiklai Žiemgalės regione išnagrinėti buvo atlikti du sociologiniai tyrimai. Rezultatai parodė, kad narystė profesinėse asociacijose, sąjungose ar nevyriausybines organizacijose bei kooperatyvuose turi įtakos ūkių plėtrai. Pasitikėjimo lygis ir socialiniai tinklai taip pat turi įtakos ūkių ekonominiam augimui. Todėl plėtros procesas yra multiplikacinio pobūdžio.

Ūkiai, kuriuose yra socialiniai tinklai ir kurių veikla neformali ne tik vietinės valdžios, bet ir regioniniu lygmeniu, turi didžiausią įtaką regioninei plėtrai. Vienas būdų padidinti socialinį kapitalą Žiemgalėje, taip pat visoje Latvijoje yra sukurti vieningą informacinį centrą. Didžiulį efektą turėtų ir strateginis kooperatyvų vadovavimas bei mokymosi visą gyvenimą sistemos kaimo vietovėse rėmimas.

Raktažodžiai: plėtra, socialinis kapitalas, ūkiai

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СОЦИАЛЬНЫЙ КАПИТАЛ В ХОЗЯЙСТВАХ ЛАТВИИ

Р е з ю м е

В данной статье обобщены итоги проведённого исследования о социальном капитале Латвии. В целях изучения социального капитала и его влияния на экономическую деятельность были проведены два социологические исследования в регионе Жемгале. Итоги показали, что для развития хозяйств значение имеет членство в профсоюзных ассоциациях, союзах или неправительственных организациях и кооперативах. Уровень доверия, социальные связи также влияют на экономический рост хозяйств. Таким образом, процесс развития по своему характеру является мультипликационным.

Хозяйства, в которых существуют социальные связи и протекает неформальная деятельность не только на уровне местной власти, но и на региональном, сильно влияют на региональное развитие. Один из способов развивать социальный капитал в Жемгале, как и во всей Латвии, – создание единого информационного центра. Большой эффект имели бы и стратегическое руководство кооперативами, а также стимулирование сельского населения к постоянному обучению, повышению квалификации.

Ключевые слова: развитие, социальный капитал, хозяйства