The Chilean miracle

Patrimonialism in a modern free-market democracy

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Preface

The work that follows is an attempt to blend together cultural anthropology with managerial sciences in a study of Chilean agribusiness and political economy. It also blends together theory and practice, in a new account of Chilean institutional culture validated through real-life consultancy experiences. This venture required significant cooperation from various angles.

I thank all persons in Chile who contributed to the fieldwork for this study. Special thanks go to local managers and technicians of *"Tomatio"* - a pseudonym for the firm that cooperated extensively and became key subject of this study. I thank all tomato growers (especially Don Nano) and all machinery contractors (especially Alejandro del Río) for exciting learning experiences out there in the field. I thank Ovidio Melo for excellent assistance in constructing the tomato chain platform. I thank Jaime Crispi, CEO of *Surfrut*, for his unique trust and openness, allowing me to assist in staff meetings. I thank Ernesto Sahr, ex-CEO of *Empresas Iansa,* for sharing his view from the top in a series of interviews. I thank the agribusinesses that received me, the peasant cooperatives that worked with me, the persons who provided me brokerage, and the policymakers, managers, experts and other persons in Santiago who found time for an interview.

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All translations from Spanish and Dutch are my own. Dollars are US dollars. Where gendered language is used, he also refers to she.

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The Chilean miracle: a neo-liberal triumph?

"The good Latin-American citizen, a friend of freedom," enthused President George W. Bush on a state visit to Chile, November 21st, 2004 *(El Mercurio, 22-11-2004)*. "Chile is an incredible country - the Chileans are a people of good heart that treasure freedom and democracy and understand the importance of economic freedom." Bush's message was remarkably similar to that of his father, George H.W. Bush, who fourteen years earlier, also on visit to Chile as President of the United States, had called Chile "an economic model for countries of the region and in the world" and "an example of how the transition to democracy ought to take place" *(El Mercurio, 7-12-1990)*.

International policy institutions, such as the IMF and the World Bank, praise Chile for its free-market democracy (e.g. Jadresic and Zahler, 2000; Perry and Leipziger, 1999). The first country in the world to adopt neo-liberalism, Chile evolved in less than three decades from a nation on fire into a proud economic model for developing countries around the world. In 1973, the Chilean people were suffering food shortages, rampant inflation, political polarization and, ultimately, a brutal military coup. In 2003, however, Chile had acquired the reputation of being the 'economic jaguar' of Latin-America, was exporting agro-forestry products all around the world, and occupied a permanent rank in the global top five of emerging economies, according to ratings of competitiveness, credit worthiness, and anti-corruption (World Economic Forum, 2003; Transparency International, 2003). During the 1990s, Chile's GDP had grown at 8 percent a year, total exports doubled, and foreign direct investment tripled, while inflation stabilized well below 5 percent and national poverty declined from 40 to 17 percent (World Bank, 2001).

An example of the economic success story one would like to see everywhere, the 'Chilean miracle' is eagerly invoked to promote 'economic freedom' around the world. Chile's macro-economic statistics and export achievements are used to testify to the blessings of a development model based on privatization, market liberalization, export promotion and a modest state. Willingly or not, the country has helped to establish neo-liberalism as the hegemonic policy model in the present-day world. Since the fall of the Berlin Wall in 1989, neo-liberal capitalism prevails gloriously, while left-wing political aspirations wither up at the sidelines. The events in Germany were interpreted as the definite bankruptcy of communism and other sorts of collectivist approaches to societal organization. Opinion-leaders saw the dawn of a prosperous new world order marked by open markets, global mobility, limitless growth, and absence of fundamental ideological

conflict. In this 21st century paradise on earth, 'neutral' liberal principles were to guide and regulate the great variety of cultures and conflicting world views that exist within individual societies and across the globe.

A prominent presentation of this view is Francis Fukuyama's "The end of history?" (1989). Causing a major splash in Washington D.C. and other centers of world power, Fukuyama argued that Western liberal democracy would universalize as the final form of human government. All other forms of government, from monarchy to communism to fascism, fail because they are imperfect vehicles for freedom. Liberalism allows for the greatest freedom and material prosperity possible, and therefore constitutes the end point of mankind's ideological evolution:

> "From Latin America to Eastern Europe, from the Soviet Union to the Middle East and Asia, strong governments have been failing over the last two decades... Liberal democracy remains the only coherent political aspiration that spans different regions and cultures around the globe. In addition, liberal principles in economics - the free market - have spread, and have succeeded in producing unprecedented levels of material prosperity... Technology makes possible the limitless accumulation of wealth, and thus the satisfaction of an ever-expanding set of human desires. This process guarantees an increasing homogenization of all human societies... They must unify nationally on the basis of a centralized state, urbanize, replace traditional forms of social organization like tribe, sect and family with economically rational ones based on function and efficiency, and provide for the universal education of their citizens. Such societies have become increasingly linked with one another through global markets and the spread of a universal consumer culture" (Fukuyama, 1992: 4-5).

The neo-liberal dream seemed right on track. Western and Eastern Europe were to unify, Latin-America's democratization was stabilizing, the Middle-East was engaging in an ambitious peace process, and the United Nations would lead the global community in a joint fight against hunger, poverty and injustice. Open market globalization would boost economic growth around the world, especially in developing countries, where low costs would attract large flows of foreign direct investment. Multinational companies, competing to meet both consumer demands and civilian concerns, would raise material welfare world-wide, generating employment and making cheap, safe and responsible products. New forms of mass communication, most notably the Internet, would trigger world-wide intercultural exchange and emancipation. The knowledge economy, based on information technology, genetic engineering and nano-sciences, would sustain limitless sustainable growth. The 21st century was to be a true golden age.

Now, in 2005, not much is left of this millenarian optimism. The neo-liberal dream has been disturbed by sustained human disaster, geopolitical conflict, economic crises and a global war on terrorism. The naïve belief in a 21st century of peace and prosperity, wherever it existed, has given way to feelings of fear and insecurity among the masses. Paradoxically, the symbolism of the neo-liberal order has become only more appealing, with every setback reinforcing its agenda. The Nasdaq crash and financial implosions in Japan, South-East Asia, Argentina and Mexico only helped to further promote the neo-

liberal economic recipe, the concentration of assets and the privatization of the public domain. The proliferation of war and conflict in Africa, the Balkan and the Caucasus instituted the term 'failed state' and the legitimacy of military intervention by 'peace-keeping' forces. Even Bin Laden's brutal attack on the center of world capitalism was made into an offensive liberal agenda - a global war on terrorism, allowing for world-wide intervention in the name of freedom and democracy.

Hence, while the world suffers from increasing destabilization, the neo-liberal policy model has only grown stronger and more self-confident. Little serious thought is given to the idea that hunger, poverty, terrorism and the like might be related to the process of neo-liberal globalization itself. They are seen as local problems - externalities - that need to be resolved by more freedom - if need be, freedom forcefully imposed. Increasing inequality of income, concentration of market power and sustained flows of capital from poor to rich countries are undeniable facts of neo-liberal globalization (Table I.1) - yet they are not taken as integral to the model. Blinded by a belief in equal opportunities, neo-liberalism fails to see its own practice of unequal distribution of power and wealth (Douglas, 2001). The liberal political economy is taken as a perfectly rational social order, free of fundamental internal contradictions. Poverty, exclusion and other social problems stem from the "incomplete implementation of the twin principles of liberty and equality on which modern democracy is founded, rather than [from] flaws in the principles themselves" (Fukuyama, 1992: 1).

Table I.1: Some statistical facts on neo-liberal globalization

World inequality	The richest 1 percent in the world receive as much income as the bottom 57 percent. The Gini coefficient, scaling from 0 (perfect equality) to 100 (total inequality), grew from 62.8 in 1988 to 66.0 in 1993 (Milanovic, 2002).
Market power	The share in total world trade of OECD countries increased from 60 percent in 1950 to 66 percent in 1996, while the share of developing countries fell from 33 percent in 1950 to 29 in 1996 (UNCTAD, 1999).
Debt-related capital flow	Net capital outflow of US$ 122 billion from poor to rich countries in 2003 (UNCTAD, 2004; does not include private capital).

In system-blindness lies the danger that neo-liberalism evolves into what may be termed 'Enlightenment fundamentalism,' an offensive liberal ideology convinced of the superiority of the 'US American way of life' and hostile to cultural traditions based on hierarchy, tradition and ascribed status, such as Islamic ones. In fact, the multicultural society, once a national ideal, has already become a term of abuse in the Netherlands, referring to the failure by politicians to address the needs of the indigenous population and enforce cultural adaptation by immigrants. In response to this popular discontent, the current cabinet has set itself the task to restore 'norms and values' in Dutch society. Ironically, what is seen as the collapse of traditional norms and values - e.g. egoism, disrespect of authority and parasitic behavior - is in fact the outcome of liberalism itself,

namely, a pragmatic culture of individualism. Also at international level, neo-liberalism seems increasingly to confront the phantoms it once itself created - Saddam Hussein and Bin Laden would never have acquired so much power if they had not enjoyed financial and military support from the West.

It thus seems that, in contrast to what Fukuyama argues, liberalism does have internal contradictions, or at least the undiluted kind of liberalism that dominates the present-day world. In our quest for a new world balance, it may be wise to abandon the monolithic thought style of contemporary liberalism and open our minds to other approaches to societal organization as well. The 'Chilean miracle' may provide useful insights for this venture. For the Chilean miracle does not testify to the ultimate triumph of neo-liberalism, as President Bush and others may believe, but rather to the blessings of cultural limits on freedom and competition. This study will argue that the Chilean miracle did not result from the adoption of neo-liberalism itself, but from the persistence within the free-market democracy of older forms of social organization, as manifested in patron-client relations. It was not undiluted economic freedom, but a hybrid of neo-liberal individualism fenced by paternalistic hierarchism that turned Chile into the model country it is today.

The persistence of patron-client organization in neo-liberal Chile

The co-existence of paternalism and neo-liberalism in Chile is nicely illustrated by one of the textbook examples of the Chilean miracle - the tomato processing industry. This sector ranks fourth among Chile's internationally praised export agribusinesses, after fresh fruits, wines and seeds. The export sales of tomato products increased sixty-fold over the past two decades - from 2 million dollars in 1981 to 115 million dollars in 1998 (Perez-Aleman, 2000). Chile is nowadays the largest exporter of tomato paste in the Southern Hemisphere. This neo-liberal miracle has been achieved on the basis of centuries-old patron-client relations.

The first tomato processor was a state company, set up in 1973 to trigger off socio-economic development in the countryside. Since then, the industry privatized, expanded and started competing internationally - but it still operates in line with the paternalistic working procedures of its pioneer. Like a true patron, the industry takes 2,000 small and medium-sized growers by the hand in a fully-fledged, centralistic contract scheme. The industry provides everything the farmers need - a market outlet, all necessary inputs, capital resources, ready-made crop decisions, management assistance and, if need be, loans for uses other than tomato growing. Like true clients, the growers are unorganized and promote their interests individually. They use their - often longstanding - personal relationships to technicians and managers to renegotiate contract conditions that are uniformly and unilaterally defined by the industry. Credit advances, choice of varieties and even quality standards are thus adapted to the needs and preferences of individual

farmers. This subtle process of individual re-negotiation may seem trivial to an outsider, but actually defines winners and losers - e.g. during the harvest peak it defines whether one gets sufficient harvest vouchers for optimal harvesting or whether one loses part of the crop due to over-ripening.

The patrimonial model of supply chain management generates serious inefficiencies. The strong concentration of decision-making power in the hands of the industry blurs the responsibility over the crop, paralyzes entrepreneurial initiative and blocks bottom-up technological innovation. The dyadic renegotiation of the contract creates a context of institutional distrust by undermining the legitimacy of norms and standards and by nurturing the feeling that reward is unrelated to performance. Due to these problems, the paternalistic chain model runs into contradictions at increased levels of competitiveness. Mechanization of the crop, for instance, requires entrepreneurial skills and attitudes that growers do not develop under a scheme of patrimonial chain leadership, where they just follow orders given by the industry. Increased competitiveness requires the chain actors to overcome their differences and start cooperating as true chain partners in order to make common headway against rival tomato chains elsewhere (cf. Trienekens and Omta, 2002; Van Dalen, 1994).

Yet within these critical limits, the paternalistic chain model has allowed the industry to do a remarkable job. It conquered the international market with high-quality tomato paste, offering a lucrative market outlet for thousands of farmers who otherwise would be producing low-value crops for a stagnated domestic market. Evidence suggests that a non-paternalistic chain model, based on more egalitarian relations and strict business criteria, would be unviable in this context. Market leader *"Tomatio"* - a pseudonym for the firm that will be prime subject of this study - started in 1999 an ambitious chain project to convert its growers from dependent clients into entrepreneurial chain partners. But this venture failed comprehensively and the company was recently taken over, leaving the market to the two competitors that most clearly rely upon the patrimonial model of chain management. Hence, while posing critical limits to the competitiveness of the industry, the patron-client chain model remains viable in Chile. It is far from perfect - we would like to see a more symmetrical and efficient chain - but it surely suffices to produce welfare, both for the patron and for clients.

Patron-client relations also prevail in other areas of Chile's free-market democracy. Modern patronage is diffuse and incomparable to traditional landlord-tenant relations, because it no longer takes place within a total institution like the *hacienda*. Nor does it resemble party-directed political patronage - the neo-liberal state has too few resources to distribute. It could even be argued that modern Chile has reached a tipping point from where the culture of paternalism will slowly fade away - the country is undergoing sweeping cultural changes suggesting the breakdown of patrimonial values, such as the spectacular rise of Pentecostalism, the recent legalization of divorce, and the forecast that Chile will be the first nation of the Americas to have a female President. Nonetheless, there is durability within change. The logic of patronage continues to guide

the daily behavior of many Chileans in areas such as the shop floor, the market, the polling-booth and civil society. Organizations in the country - public or private, big or small - tend to feature centralized decision-making, personalistic systems of rules, top-down lines of communication and restricted room for grassroots initiative. Personal acquaintance - *pituto* - remains a key strategy for obtaining better services from the state and in the market. Many day-to-day problems are not solved through formal institutions, but through dyadic exchange relationships between persons of unequal status.

The persistence of patron-client relations in a modern neo-liberal country is odd - for patronage seems to clash with the fundamental principles of a free-market democracy. Featuring sharp inequalities, arbitrary regulation and one-man leadership, patron-client organization violates democratic principles of egalitarianism, universalism and citizen participation (Gellner, 1977; Roniger and Günes-Ayata, 1994). Moreover, patron-client systems run into contradictions when they operate under competitive market settings, as will be shown for the tomato industry. Instituting centralized command and personalistic procedures, patron-client relations create organizational contexts which hamper economic performance, as Fukuyama shows in his work on institutional trust as the basis of economic welfare (1995; see also North, 1990). It is particularly doubtful whether the centralist patron-client approach can meet the conditions of the global 'network society,' where horizontal networks geared towards the production and exchange of knowledge replace the vast hierarchical structures of industrial mass production (Piore and Sabel, 1984; Best, 1993; Castells, 1996).

Yet apparently patron-client organization has enough advantages to remain viable in contemporary Chile. Paradoxically, these advantages derive from its core weakness. For the problem of institutional distrust entails in itself a great advantage - the need for interpersonal trust and solidarity (Galjart, 2002). Patronage upholds dyadic exchange relationships as a key livelihood strategy offering tailor-made solutions to individual needs that cannot be met by institutions. It thus gives the hope of being attended in a world where bureaucratic universalism often boils down to indifference (Günes-Ayata, 1994). Patronage puts limits on competition by ascribing social positions, teaching modesty and loyalty, and sustaining effective lines of command and compliance. Paternalism puts limits on power in a hierarchical culture where top authority is held accountable for the well-being of dependents and their families. It stretches functional relations into personal relationships and integrates social concerns into economic decision-making. A paternalistic economy thus gives opportunities to persons who would not stand a chance in a strictly neo-liberal environment. Many Chileans are excluded from enjoying the benefits of the Chilean miracle - but many more would be excluded without the alleviating effects of patronage and personalism.

Hence, the Chilean miracle does not simply testify the triumph of the neo-liberal way of life. Chile is one of the most liberal economies in the world, but a traditional patron-

client hierarchy is there to alleviate some of its adverse aspects. Granted, this hierarchy is weak in bottom-up initiative and too dependent upon the whims of its big leaders. It would surely improve by allowing more room for egalitarian dialogue - a challenge which this research project put into practice in a series of related consultancy interventions. But on the other hand the culture of paternalism puts a limit on power and competition and teaches people to take care of each other in interpersonal exchange networks. For want of such 'spontaneous' solidarity, liberal European nations need vast institutional systems to counterbalance the excesses of individualism. Special laws, agencies and regulations are set up to care for the aged, the jobless, the overworked, the handicapped, the lonely, and other dropouts of the competitive society. Hence, liberalism and individualism lead to institutionalization and bureaucratization on the European mainland - a paradox that puts the notion of freedom in a different perspective. In the USA, the counterbalance to individualism seems provided by a neo-conservative culture stressing moral values of family, fatherland and Christianity. Fukuyama thus seems to be mistaken - liberalism alone cannot be the endpoint of mankind's ideological evolution. There needs to be some kind of balance with a hierarchical culture that provides for collective identity and solidarity. Therefore if the free-market democracy is to universalize it will take many different guises - from Chile's dyadic paternalism to Japan's collective paternalism, and from European corporatism to Russian tsarism and American wild west capitalism.

The Chileans seem to be well aware of this. They clearly are less fond of 'freedom' than President Bush believes - in a recent UNDP survey, only 45 percent of all Chileans declared being committed to democracy, while 57 percent saw themselves as victims of the neo-liberal economy (UNDP, 2002). This dissertation will delve into Chilean culture and society to find out how Chileans organize their own special type of free-market democracy. The central argument will be that Chile accommodates within its political economy an ancient institutional culture of patrimonialism - a culture that underpins hierarchical relations, personalistic livelihood strategies and a fatalistic view of the world. This will be demonstrated in four ways. First, a series of empirical case studies of supply chain management, farmer cooperatives and shop floor management will describe how patron-client relations continue to shape present-day management and organization in the country. Second, a historical analysis of Chile's political economy will demonstrate how patron-client organization has been reproduced in different guises throughout Chile's development from a Hispanic colony into a modern free-market democracy. Third, a cultural analysis will show how the Chileans discuss, challenge, reproduce and legitimate patrimonialism through a centuries-old debate on the national 'idiosyncrasy.' Fourth, a series of real-life consultancy experiences will make clear how hard it is to change patron-client organization and how easy it is to fall back on existing structures when difficulties arise.

One contribution of this study is to shed a new light upon Chile. Integrating culture and social organization into a single analysis, the study will uncover how institutions like the free market really work in Chile and sharpen our understanding of the country's world-famous historic particularities - like the Chilean miracle in the 1990s, and the revolutionary regimes of Frei, Allende and Pinochet in the 1960s and 1970s. The study will also generate new insights into patron-client organization, explaining its persistence in an advanced society, discussing its pro's and contra's as organizational form, and exploring ways to enrich it by creating more room for egalitarian dialogue. Yet the key conclusion of the study goes beyond the immediate subject-matter of Chilean institutional culture.

The findings of the study indicate that policy-making and private enterprise need to better acknowledge the endurance of local institutional arrangements. Many perceptions of the contemporary world are biased by a focus upon change. Politicians and business leaders embark upon one reorganization after the other, simply because standstill is considered decline. Scholars and management gurus emphasize that post-industrial society is fragmenting radically and shifting toward new, flexible forms of organization which interconnect livelihoods around the world. These views fail to see that there is durability within change - what Nietzsche called 'the eternal return of the same.' To fill up that omission, this study offers a framework for understanding the durability of institutions under change. The study shows that new, modern forms of organization - e.g. demand-driven supply chain management - are prone to reproduce ancient structures like patron-client relations. Management is successful only when it acknowledges these pre-existing modes of regulation. Especially, organizations operating in cross-cultural contexts - e.g. multinationals - need to be sensitive to cultural diversity and accommodate localism and multiplicity within their working procedures. However, while respect for local institutions is important, it should not turn into an apathetic approach where local cultures are cherished as museum-pieces - for the global and the local and the old and the new blend together in real-life organization. This study offers an efficient framework for understanding and managing the hybrid nature of institutional culture.

Structure of the book

Chapter One is an empirical case study of supply chain management in the Chilean tomato industry. It studies the way in which market leader *Tomatio* steers five hundred contract farmers and eight machinery contractors to produce high-quality tomato paste for export markets. Though operating in highly competitive business context, the chain performance is far from optimal. The chain is organized according to patron-client principles, which creates blurred task divisions and constrains entrepreneurial initiative within a climate of institutional distrust. This empirical discovery leads to a problem

statement - why do knowledgeable entrepreneurs maintain patron-client relations in spite of being aware of its inefficiencies? This problem statement sets the mission for the dissertation - to understand the durability and the potential for change of patron-client organization in Chile.

Chapter Two is a theoretical intermezzo, explaining the proposition and approach of the thesis. The proposition is that 'patron-client institutionality' is a meaningful concept for understanding and improving management and organization in Chile. Patron-client institutionality is defined as an institutional culture marked by hierarchical relations, personalistic livelihood strategies and a fatalistic perception of the world. The concept is derived from cultural grid-group theory as developed by Douglas (1986), Hood (1988) and others (e.g. Mars, 1982: Richards, 2000). Integrating organization and culture into a single analysis, it is designed to explain institutional durability.

Chapter Three is a historical analysis of Chile's political economy from 1540 to 2000, based on extensive documentary research. It demonstrates that patron-client institutionality is Chile's prototype of complex social organization, introduced by the Spaniards as they colonized the country and established its first nation-wide political regime. Patrimonialism was founded in the *hacienda*-dominated countryside, from where it was woven into Chile's national institutions, as landed interests controlled the political economy. Patron-client institutionality has been severely challenged throughout Chile's modernization - particularly in the 1920s - and in the 1970s entered into deep crisis. Yet it always reappeared in different a guise, if need be, under the firm hand of a dictatorial patron above politics. In contemporary Chile, patronage is diffuse - but its rationality continues to guide organizational behavior in the country.

Chapter Four analyzes the mechanisms through which patron-client institutionality is being reproduced in Chile. To explain how the Chileans resist it and why they go along with it, the chapter analyses the centuries-old debate Chileans sustain over their 'national idiosyncrasy.' This debate, held in academics but also on the street, argues that the Chilean is individualistic and unreliable - a *roto* - and needs to be straightened out by a strong hand - the *huaso* - before true democracy can exist in the country. The Chileans thus found patron-client institutionality in Reason and Nature by defining it as an inevitable social order tailored to the shortcomings of the 'Chilean idiosyncrasy.' By postponing organizational changes until the national culture has sufficiently matured so as to allow for such changes, the idiosyncrasy debate blocks effective change here and now - hence the reproduction of patron-client institutionality.

Chapter Five goes back to the tomato chain to answer the question left open in Chapter One - why do knowledgeable entrepreneurs maintain patron-client relations in spite of its inefficiencies? The chapter demonstrates that Tomatio thinks and acts as a paternalistic hierarchy and that the growers think and act like clientelistic fatalists. Due to these cultural biases, the chain partners are trapped in a vicious circle of institutional distrust and 'imprisoned' by patron-client organization. Their potential to act otherwise is blocked by their limited rationalities, partial blindness, selective memories and

incapacity to see alternatives. The chapter ends up by analyzing the experiences of a chain platform in the tomato chain - an intervention by the researcher designed to improve the organization of the chain through a mediated egalitarian dialogue.

Chapters Six and Seven are empirical case studies of two other areas of patron-client organization in Chile: peasant cooperatives and shop floor relations. Chapter Six shows that patron-client institutionality underlies many of the problems and mistakes that have been committed in the organization of the Chilean peasantry, both in the 1970s and the 1990s. It explains how patron-client institutionality is being reproduced in the relations between peasants, their organizations and the state, and it provides some guidelines for fostering durably successful peasant business cooperatives. Chapter Seven shows how patron-client institutionality shapes shop floor relations and sustains Taylorism as a dominant management style in Chile. It also analyzes the experiences of an agribusiness company that improved its performance by opening up spaces for co-management by its workers. This form of 'participative paternalism' may be a promising way to enrich and improve patron-client organization.

The Epilogue discusses the wider implications of the study. Basic background information on Chile is provided in Appendices One and Two. Some methodological aspects of the study are considered in Appendix Three. Surveys used in the fieldwork are presented in Appendices Four and Five.

Chapter 1 Clientelism in the tomato chain

1.1. Introduction

This chapter is a case study of supply chain management in the Chilean tomato industry. We will examine the management model with which the processor *Tomatio* (fictitious name) steers its business relations with upstream chain partners - approximately five hundred contract growers, eight machinery contractors, and a dozen of seedling nurseries. The analysis will show that the tomato chain functions according to the principles of patron-client organization - i.e. centralized authority, dyadic command structures, personalistic incentive systems, and no room for grassroots organization.

The odd persistence of this ancient organizational model in the affairs of 21st century export business is based on its capacity to sustain loyalty, interpersonal trust, and effective lines of command. In recent years, however, the patron-client model has run into contradictions, as the industry has been facing increasing international competition. The centralistic nature of patron-client management hampers the performance of the supply chain, generating problems like blurred task divisions, high transaction costs, institutional distrust, and low innovation capacity. To increase chain performance, Tomatio needs to abandon its patriarchal leadership style, and start sharing control and initiative. The company needs to improve its transparency, and engage the growers and machinery contractors as fully-fledged chain partners. That is, the patrimonial chain model needs to be enriched with notions of modern supply chain management. In this approach the chain segments overcome their differences and cooperate to compete against rival chains. They do so by opening up their communication, defining shared visions, elaborating joint projects, and sharing management processes previously done by one segment only (Trienekens and Omta, 2002; Cooper et al., 1997; Zuurbier et al., 1996; van Roekel, 1996).

This chapter examines why and how patron-client organization is reproduced in the tomato chain in spite of its inefficiencies. Delving into the everyday practice of a supply chain in the Central Valley of Chile, we will look for an explanation why managers, technicians, growers and machinery contractors relate to one another as a patron to a client.

1.2. The Chilean tomato industry and its position on the world market

The tomato processing industry ranks fourth amongst Chile's internationally praised export agribusinesses, after fresh fruits, wines, and seeds. It is considered a textbook case of Chile's neo-liberal economic miracle (e.g. Perez-Aleman, 2000; FAO, 1995;

Fundación Chile, 1994, 1996; ODEPA, 1994; Universidad Católica, 1993). The export sales of tomato products increased almost sixty-fold over the past two decades, from 2 million dollars in 1981 to 115 million dollars in 1998. Chile is now the largest exporter of tomato paste in the Southern Hemisphere, and belongs to the world's ten leading producers. In 1998, nine large processors contracted 2,000 smallholder and medium-sized farmers to grow 12,000 ha of tomatoes in the Central Valley of Chile (Table 1.1). Operating under a fully-fledged contract scheme, the tomato industry provides growers with all-encompassing services - i.e. seedlings, agrochemicals, machinery services, technical assistance, credit, investment loans, and a market outlet at a fixed price.

Table 1.1: Profile of the Chilean tomato processing industry in 1998

Number of processing firms	9
Number of contract growers	2,000
Crop area	12,000 ha
Total sales	US$ 115 million (80% export, 20% domestic)
Main export markets	Brazil (22%), Argentina (16%), Japan (10%), Venezuela (10%)
Products	Tomato paste (90%), peeled tomato (5%), tomato sauce (5%)

Source: Fieldwork (company databases)

Tomato growers form a highly heterogeneous group which ranges from medium-sized farmers to the 'elite' of Chile's smallholder farmers. The substratum are low-resource smallholders who cultivate besides, say, 2 ha of tomatoes another few hectares of vegetables under contract or for local markets. They are market-oriented, have basic farm administration skills, make use of agricultural machinery, but are financially dependent upon credits from the state or from contract farming arrangements. The upper stratum includes financially independent, agrarian entrepreneurs who generate annual revenues of half a million dollars by cultivating, say, 80 ha of tomatoes in addition to 200 hectares of seeds, grains, and sugar beet. The latter embark on tomato production seeking high profits, whereas the former mainly aim at securing a market outlet and working capital (Tomic, 1991; CEPAL, 1992b; Peppelenbos, 1996). When producing for domestic spot markets - i.e. without a production contract - smallholder farmers are confronted with a series of problems, such as deficient access to bank credit, low sales volumes, depressed prices, informal markets, and fraudulent middlemen (Murray, 2002; Kay, 2002, 1997; Conning, 1996).

The tomato processors are subsidiaries of large agribusiness holding groups, which, in turn, belong either to a national conglomerate or a transnational corporation. The tomato industry produces intermediate bulk ingredients - principally tomato paste - for manufacturers of branded food products. Only one-fifth of the industry's total revenues is generated by the sales of consumer products on the domestic market; the remaining four-fifth is export (FEPACH, 2003). Half of the export volume are products tailored to

the needs of fixed clients - i.e. mostly transnational companies, like Unilever, Kagome and Heinz, that foster long-term relations with their suppliers so as to assure food safety and tailored product quality. These relationships entail - besides medium-term trade agreements - year-round technical cooperation through the exchange of staff and information. Trained and advised by their transnational clients, the Chilean tomato processors decide about investments in new technologies at farm level and in the plant. Thus they tune their production capacity to the changing requirements of the market. Note that the stable, personalized nature of these relationships - in one case sustained for more than 25 years - has little to do with the proposition by some scholars that primary processors are played off against each other by the global sourcing strategies of transnational corporations (e.g. Elshof, 1997; Bonanno et al., 1994; Arce and Marsden, 1993; Ruivenkamp, 1989). Brand images and market shares are so vulnerable to consumer perceptions of food safety that transnational corporations - more than small companies - protect their brands by establishing long-term trade relations with preferred suppliers (cf. Vellema and Boselie, 2003).

The production process of tailored tomato products is carefully planned and executed in accord with the client's specifications. This process is logistically separated from the production of generic tomato derivates, which make up for the other half of Chile's exports. Generic tomato paste - typified by insiders as 'the battle product' - is sold on international spot markets, where business transactions are anonymous, volatile, based on price-fighting, and often mediated by brokers. Though the consumption of tomato products increases steadily - in average 2.7 percent per annum in the past two decades (ODEPA, 2003) - the world tomato market is a mature and highly competitive market sector. To be competitive, a processor faces two key challenges. For its profitability it needs to produce a large proportion of high-quality paste, and for its continuity it needs to arrange a market for low-quality paste. Tomato paste is graded into three qualities - fancy, standard and sub-standard -, the determination of which depends primarily on color and mould (INN, 1999). There is a market for each quality, but in recent years the world market has been flooded by sub-standard paste from China. Chinese paste is offered at CIF prices - in the port of destination - that lie 120 dollars below the Chilean FOB price - in the port of shipment. Hence in order to survive, the Chilean tomato industry has been forced to improve the quality of its products, develop alliances for the sale of low-grade paste, and stock large amounts of sub-standard paste in the hope that world market conditions will improve.

World market dynamics depend primarily on the EU and the USA - together they account for two-thirds of total production and trade (Fundación Chile, 1996; CORFO; 1991). The EU market is inaccessible to Chile because it is protected by import quota, custom tariffs, production subsidies, and trade agreements with preferred trade partners. On a longer term the EU market will open up to Chilean agribusiness products, due to the 2004 trade agreement between Chile and the EU. But for the moment, the potential export markets for Chilean tomato products are only the USA, Latin America

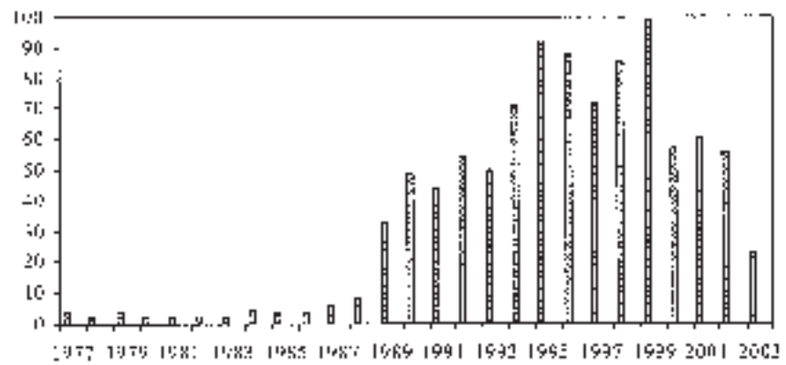
and Asia - markets that account for approximately 30 percent of total world trade. In this 'world market,' where Chile competes with countries like Turkey and China, the California harvest - equivalent to 35 percent of world production - is the single most important determinant of price and demand (CORFO, 1991). If the crop is good, then the USA is an exporter, the world market is oversupplied, and prices are down. A bad crop, on the contrary, means an undersupplied world market, high prices, and the opportunity to sell sub-standard paste. Hence, the world market features sharply fluctuating prices and trade activity levels. Brokers I interviewed expressed the theory that these fluctuations follow a four-years cycle determined by *El Niño*. In the past two decades, world market prices have fluctuated between 450 and 1.480 dollars per ton of tomato paste (ODEPA, 2003, FEPACH, 2003).

Chilean tomato paste has been conquering the world market for the last two decades only, but the industry itself goes back as early as the turn of the 19th century. In the first decades, product quality was far below export standards, because the industry worked with raw materials unfit for industrial processing - i.e. fresh consumption tomatoes that were superfluous on, or improper for, the domestic market (Guzman, 1940; Ramírez, 1962; Román and Morales, 1975). The first processor geared at export production was established in 1973 by CORFO - the Chilean state development corporation - after more than ten years of research and experiments. Set up as a fully-fledged contract farming scheme, the project's objective was to absorb Chile's fresh new farmers - the agrarian reform beneficiaries - into a business structure that would be all-supportive but economically viable at the same time (ODEPA, 1968; CORFO, 1971; Bitar, 1970). After the dramatic termination of Allende's government, the tomato scheme was among the first state companies sold off to the private sector. It took the new owners more than a decade to develop a competitive supply chain. Not only was it difficult to insert low-resource smallholder farmers into the logic of export-induced modernization. It was at least as difficult to understand the code of conduct in international trade, and to gain the trust and preference of foreign clients (El Campesino, 1979; Perez-Aleman, 2000). But in the end, the project worked out the way its socialist inventors had hoped for - as a dynamic partnership between smallholders farmers and export firms. A masterpiece of social engineering, the tomato project marked the birth of Chile's export-oriented fruits and vegetables agribusiness - nowadays good for 800 million dollars of exports a year (FEPACH, 2003) - and served as an model for business-led rural development.

It was in 1988 that the Chilean tomato industry converted into a serious exporter, profiting from a highly undersupplied world market (Figure 1.1). Four events provided for this opportunity - the crop in California was bad, a series of markets fell open as Spain and Portugal integrated into the EU, the EU reduced its production quota, and a transatlantic trade conflict blocked all European tomato exports to the USA (Tomic, 1991; Saéz, 1991; CORFO, 1991). Jumping into the gap left open on the USA market, the Chilean tomato industry exploded from two to twelve companies in only four years time. Initially, the USA absorbed between one-half and three-quarters of Chile's tomato

exports. But in subsequent years Chile gradually lost the USA market, as the American government signed trade agreements with Mexico (NAFTA), Israel (preferred partner) and Peru (trade for cocaine). Nowadays, Chile's sales to the USA are sporadic, and directly dependent on the California harvest - in 2002, they were 1 percent of Chile's total tomato exports, but in 1999, 27 percent (ODEPA, 2003).

Figure 1.1: Exports of Chilean tomato paste, 1977 - 2003 (millions of US dollar)



Source: ODEPA, 2003; FEPACH, 2003; Tomic, 1991.

Japan used to be Chile's second most important client, with a purchase share of 35 percent in 1989 (ODEPA, 2003). The Japanese want their tomato paste intense red - i.e. with a high level of lycopene, an anti-oxidant with supposed health benefits. The more sun hours the tomatoes enjoy, and the higher the difference in temperature between day and night, the higher the amount of lycopene in the fruits. The climate in the Central Valley of Chile is exceptionally favorable in both respects, due to the valley's longitude, and its location in-between the Andes and the Pacific Ocean. Nevertheless, in recent years, Chilean exports to Japan have gradually been replaced by produce from Turkey, Taiwan and other low-cost countries that successfully upgraded the amount of lycopene in their paste. In 2002, Chile's sales to Asia represented only 10 percent of total exports (ODEPA, 2003).

Latin America is nowadays the major destination of Chile's tomato exports, with a purchase share of 82 percent in 2002, up from 4 percent in 1989 (ODEPA, 2003). In the mid-1990s, Brazil accounted for half of Chile's exports. But the country is now almost self-sufficient, as its tomato industry moved from the virus-plagued São Francisco Valley to the dry lands of Goiás in the center of Brazil. Chile responded by diversifying into Argentina, Venezuela and Central America, which now account for more than 60 percent of total exports (ibid.). But Chile's position in these markets is not stable either, as the growth potential of the Brazilian industry is far from exhausted, and the Chinese are

gradually improving the quality of their paste. To remain competitive, the Chilean tomato industry will not only need to improve quality and efficiency, but also - perhaps primarily - cross its fingers for a positive outcome of the bi- and multilateral trade negotiations by the Chilean government.

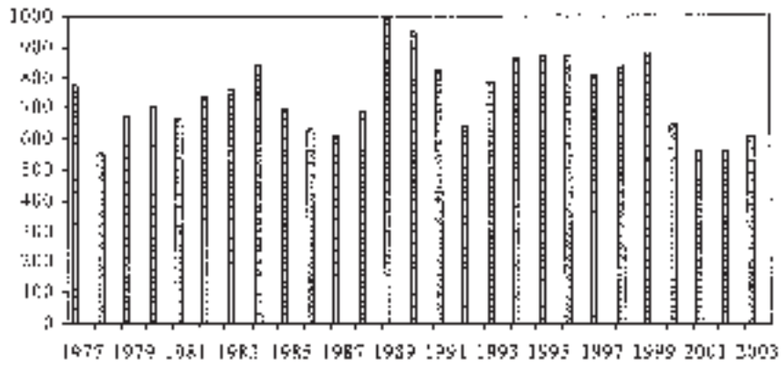
It may well be that the Chilean tomato industry is not the glamorous success story that local policy-makers want us to believe. A look beyond the macro-economic figures reveals a picture of the tomato industry as an unstable, dependent commodity sector which has not moved beyond an 'easy phase' of export development. Few countries possess the comparative advantages enjoyed by the Chilean tomato industry - i.e. a dry harvest season of more than 100 days (twice as long as in the Mediterranean Basin), little pressure of pests and diseases (thanks to the country's phytosanitary isolation by the Atacama desert, the Andes and the Pacific Ocean), fertile volcanic soils that have never before been used for intensive crop production, farmers who are unorganized, and rural wages that are around 10 percent of those in the USA (USDA, 1992; Escobar, 1993). The success of Chile's tomato industry has been based on exceptional natural resources, cheap labor, imported technologies, and transitory market opportunities. But the industry never embarked on more sustainable forms of competitiveness - i.e. value-adding, branding, quality certification, creation of unique selling points, protection of natural resources, and/or development of local innovation capacity. As a result, the Chilean tomato industry is extremely vulnerable to the fluctuations on the world market. In recent years, both entered into deep crisis.

1.3. Crisis in the tomato industry

From 1996 onwards the Chilean tomato industry has been restructured dramatically. Six processors went out of business or were taken over by their competitors. The three remaining firms are under severe pressure to invest heavily, or sell their processing operations as soon as possible to avoid further losses. The crisis is a conjunction of market pressures and production problems.

First, Chile is being squeezed out of the world market. Successive years of record harvests in California, together with China's entry into the world market, have made world market prices drop to approximately 550 dollars per ton, just above the Chilean cost price of 500 dollars (at current currency rates). Never before in twenty-five years of exporting did the Chilean tomato industry receive such low prices (Figure 1.2). But low prices are only one side of the problem - when the world market is oversupplied, it also means the demand for low-quality paste is falling. Hence, besides facing depressed prices, the industry is unable to sell its sub-standard paste, which represents almost forty percent of total production. The plants now offer the sad view of huge piles stacked with barrels with unsaleable tomato paste.

Figure 1.2: Export price for Chilean tomato paste, 1977 - 2003 (US$/ton)



Source: ODEPA, 2003; FEPACH, 2003,; Tomic, 1991.

Second, the industry is under increasing pressure by its clients to improve quality, food safety, and environmental friendliness. To remain eligible for doing business in the USA and other export markets, the industry will have to implement quality management systems such as ISO-9000, Hazard Analysis of Critical Control Point (HACCP), Good Manufacturing Practices (GMP) and - at the level of its suppliers - Good Agricultural Practices (GAP). This implies huge investments in agricultural extension, training of employees, plant infrastructure, information technology, and certification. This problem faced by the Chilean tomato industry reflects a tendency at global level - i.e. the role of quality standards has shifted from a technical instrument for the reduction of transaction costs to a strategic instrument in competitiveness (Busch, 1995; Reardon et al., 1999). Due to the required investments, this development has tended to exclude small-scale farmers and industries from participating in global food chains (Reardon et al., 2001; Mercurius Wageningen, 2002; Vellema and Boselie, 2003).

Third, the attractiveness of the crop has declined sharply. Industrial tomatoes used to be the 'king crop' for only the elite of Chile's smallholder and medium-sized farms. Considered a high-cost, risky, and demanding production alternative, the crop was cultivated in view of its high potential profits. During the last years, however, the profitability of tomato growing has been squeezed by the rising currency exchange rate between the USA dollar and the Chilean *peso* - the value of one dollar rose from 420 to 750 *pesos* in the last five years. In 1998, a few months before the dollar happened to sky-rocket, the industry switched its prices for raw material from dollars into *pesos*. As the dollar rose, producer prices deflated in relation to the costs of production, because many inputs are imported, hence, dollar-related. Despite huge price increments in *pesos* and aggressive cost reduction strategies, profit margins have been eroded by approximately one-quarter. In the season of 2001-2002, a yield of 75 ton/ha was good for a profit of 398,000 *pesos*/ha, whereas in 1997-1998, the same yield made 540,000 *pesos*/ha

(corrected for inflation).

The declining profitability of the crop induced many farmers to switch from tomato growing into other contract schemes - particularly seed multiplication - or into the production of cash crops such as maize, wheat, and vegetables. The most problematic aspect of this process, from the point of view of the industry, has been its selectivity. Whereas 'good' farmers - i.e. those with management skills, technology, and capital resources - tend to abandon tomato growing, the industry is put off by 'the small ones' - i.e. low-skilled, low-resource farmers whose primary motivation for tomato growing is access to credit. For the industry this implies higher transaction costs, lower quality of primary material, lower potential for agricultural innovation, and an insecure basis for investments.

Fourth, the industry is losing control over the labor process in crop harvesting and, in consequence, over the quality of the raw material and the final product. Tomatoes used to be harvested by crews of workers moving through the fields in three consecutive rounds, selectively picking the ripe, undamaged fruits, while leaving the immature fruits on the vines for further ripening. The declining profitability of the crop and the decreasing availability of wage labor - due to the expansion of the fresh fruit and wine sectors - made the farmers and industry look for ways to economize on wage labor. First, the three harvesting rounds were reduced to two. Then, in 1994, returning from a trip to Spain, industry technicians introduced a new, once-over harvesting method in which the entire vines are pulled out and shaken until all fruits have fallen on the ground. While the immature fruits are left in the field, the ripe fruits are picked up in boxes, poured out in bins and transported to the plant. However, upon its introduction in Chile, this Spanish harvesting method underwent a slight but critical adaptation. Chilean tomato pickers are paid per bin, and eager to make more money they shake the vines directly above the bins, with the consequence that not only ripe fruits enter into the bins but also immature and putrefied fruits, clods, dirt, and leaves. On top, they put red fruits to 'fulfill' quality requisites. With 40 to 70 people working in the field, this practice is not easy for a farmer to prevent - nor is he eager to do so, given that any extraneous material entering the plant is a gain in weight, hence, profit.

The once-over harvesting method led to serious quality problems in the plants. In spite of huge investments in electronic sorters, filters, and cleaning infrastructure, the proportion of fancy production dropped from approximately 85 to 55 percent. The main problem is mould infestation. The bins, in which sound tomato fruits are mixed with large amounts of organic material and putrefied fruits, constitute a nice habitat for mould growth with temperatures of more than thirty degrees and delivery queues up to twenty-four hours. Unlike color, mould can hardly be managed in the plant. The moulds are effectively killed by heating, but its structures cannot be removed from the product. Nor is sorting an efficient solution - i.e. tomatoes with mould spots may be selected and discarded, but at that time the moulds have already infected the water system with which the tomatoes are unloaded, washed and transported.

In conclusion, the Chilean tomato industry is under severe pressure. The world market is in unprecedented crisis, the profitability of the crop is declining, quality levels have dropped dramatically while low-quality markets are oversupplied, and the best suppliers tend to abandon the crop. Prompt action is needed to safeguard the future of tomato processing in Chile.

1.4. Tomatio's response to the crisis: 'Californization'

Tomatio is a subsidiary of Chile's largest agribusiness holding group *Empresas Iansa* - once a national pride, but since 1999 in Spanish hands. Accounting for one-quarter of national production, Tomatio is the smallest of the three surviving tomato processors. Located in Talca, the capital of the 7th region, Tomatio started operating in 1990 with a crop area of 1,045 ha amongst 272 growers. The company grew fast and reached its peak in 1999, when it became market leader with a crop area of 4,158 ha amongst 540 farmers. Since then, the company has reduced its operations - in 2001 it contracted only 1,920 ha amongst 170 growers. In the top years, Tomatio's export sales exceeded 30 million dollars, but nowadays they lie around 7 million dollars. Tomatio's paste goes to the regional market - 65 percent to South America, 32 percent to Central America and 3 percent to the Caribbean.

The world market crisis has affected Tomatio more than its competitors, because Tomatio is the only company with a complete dependency on exports. The two other tomato processors have brand names on the domestic market, which not only generate more added value, but also the opportunity to get rid of sub-standard paste. Tomatio can supply such paste to sister companies in Brazil - two food manufacturers with branded consumer products - but Tomatio's sub-standard paste is unlikely to be competitive with local alternatives. Hence, the company has been severely damaged by the crisis in the Chilean tomato industry. In only three years time, between 1999 and 2002, Tomatio converted from market leader into last comer. The company has been stripped through the dismissal of employees, externalization of activities, and centralization of other activities on to holding group level. Up for sale since 1999, Tomatio was recently taken over by one of its competitors, in March 2004 *(El Diario, 24-3-2004)*. The analysis that follows was written without this knowledge and describes the situation at the time of the fieldwork (conducted between 1999 and 2003), when the company was in trouble but bravely fighting for survival. The Epilogue to this study will reflect upon the sale of Tomatio and its implications for the analysis.

At the time of the fieldwork, Tomatio was the only tomato processor with a defined stand on the future of tomato growing in Chile. Whereas its competitors simply adhered to a traditional strategy of small-scale, labor-intensive crop production, Tomatio had an ambitious program to modernize crop production and reorganize the supply chain. For

tomato growing to remain profitable, the company held, the growers must specialize, mechanize, and automate. They can no longer be 'hobby farmers' - i.e. unspecialized, financially dependent and without long-term commitment to the crop. The farmer of the future 'thinks tomatoes' - he is a crop specialist, a professional entrepreneur, and an integral part of the tomato chain. Tomatio foresaw a future of large-scale, labor-extensive crop systems (Table 1.2). Farm production would rely upon a network of external machinery contractors providing services of tillage, transplanting, fumigation, and harvesting. The transactions and interactions in the supply chain would be managed through a central software system operated by Tomatio.

Table 1.2: Mechanization of the crop at Tomatio (in 1999)

	1991	1999	Future
Average producer size (ha)	3.8	7.8	20
Use of labor (man-day/ha)	191.7	138.9	65
Use of machinery (machine-day/ha)	1.7	4.7	5.9
Traditional farming systems[1]	89%	25%	0%
Semi-mechanized, with manual harvest[2]	11%	51%	50%
Semi-mechanized, with machine harvest[3]	0%	21%	40%
Fully mechanized[4]	0%	3%	10%

Source: Fieldwork data (company database)
1 - All cultivation practices based on manual labor and horsepower (191.7 man-days/ha)
2 - Mechanized tillage, manual transplanting and manual harvesting (139.8 man-days/ha)
3 - Mechanized tillage, manual transplanting and mechanized harvesting (61.5 man-days/ha)
4 - Mechanized tillage, transplanting and harvesting (39.6 man-days/ha)

Tomatio's plans for the future were inspired by trips to California, which is a paradise from the point of view of the company. If Tomatio were located in California, its demand for raw material would be satisfied by one single farmer, who would work independently, finance his own crop, and deliver his tomatoes strictly as scheduled. The industry would not need to engage in technical assistance or innovation, and transaction costs would be negligible. Nonetheless, it is noteworthy that Tomatio took California as point of reference, considering that agricultural conditions in illustrious tomato-growing countries like Italy and Spain are far closer to Chile's reality. Mediterranean tomatoes are cultivated on plots of similar size, in a comparable climate, and by farmers with a resource base not far bigger than that of middle-sized growers in Chile. But Californian dimensions are really beyond comparison - top growers in California cultivate a larger crop area than Tomatio contracts among 500 suppliers, and California's leading firm Morning Star produces more paste alone than the Chilean industry altogether.

Why, then, did Tomatio take California as point of departure for its chain development program, if there are alternative models in Europe which require less radical change? In an interview, Tomatio's technical manager - in charge of primary production - saw the

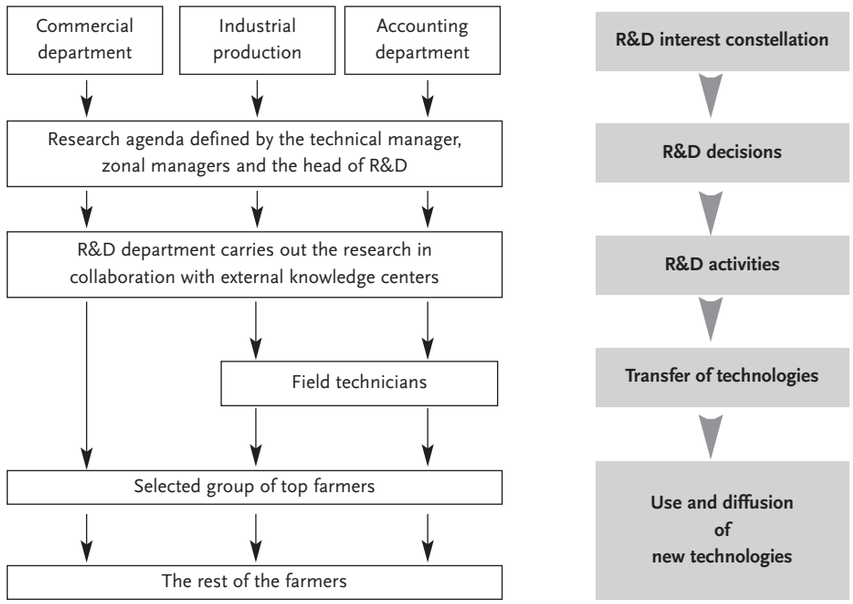
issue as follows:

> "European agriculture is heavily subsidized, it is not real, unsound, it cannot exist without subsidies. Therefore, we cannot take its structure as starting-point for our agricultural policies."

But there is more to it. Because why did Tomatio go for up-scaling and mechanization, whereas its competitors still adhered to small-scale, labor-intensive production? A partial answer is the company's export-dependency. More than its competitors, who supply the domestic market, Tomatio was under pressure to take action, for the company was being drowned by its own sub-standard paste. An additional explanation is the corporate interest of the holding group to which Tomatio belonged - i.e. the company constituted a market outlet for technological and financial products offered by sister companies. Hence, for Tomatio, agricultural innovation was not just an operation in tomato paste production - it also was a business in itself. However, a full answer will be provided only in Chapter Five, which delves into the institutional culture of Tomatio and its holding group. For Tomatio's decision to embark on a 'think big' technology project can only be understood in relation to its self-image as an enlightened leader and provider of modernity to the Chilean countryside - we will see that Tomatio's holding group carries an historical role as the Patron of smallholder farmers in Chile.

At this stage, the point is simply that Tomatio was pursuing an aggressive policy of mechanization and automation. For this to happen, the company relied on the 'transfer-of-technology-model' - the classic top-down approach to innovation that has dominated the world of extension sciences since the 1960s (Röling, 1995; Engel, 1997). In the case of Tomatio, the model works as follows (Figure 1.3). The research agenda is defined by the technical manager in consultation with the two zonal managers and the head of the R&D department. Herein, they consider the interests of the commercial, industrial, and accounting departments - i.e. the needs of clients, industrial efficiency and agricultural profitability, respectively. To carry out the research agenda, the R&D department has an experimental farm of 18 ha, and a series of alliances with knowledge centers. The testing of new hybrid varieties and agro-chemicals are traditional lines of research, whereas experiments with irrigation, mechanization and integrated pest management (IPM) have been strategic lines of research in the past five years. Once validated, the new technologies are introduced by the technicians on the farms of top farmers - or 'opinion leaders' as Tomatio calls them. From there, the new technologies are supposed to trickle down to the rest of the farmers.

Figure 1.3: Tomatio's model of agricultural innovation



Source: Fieldwork material

In 1999, Tomatio developed an action plan to apply for state co-financing and accelerate the process of technology transfer. The plan was elaborated as a 'Supplier Development Program' - hereafter referred to as PDP, the Spanish acronym for *Programa Desarrollo Proveedores*. The PDP program was launched in 1996 by the Chilean state as a policy tool to improve the competitiveness of the Chilean agribusiness through an 'integrated supply chain approach' (cf. Trienekens and Omta, 2002; Zuurbier et al., 1996; Van Roekel, 1996). International benchmarking had shown that supply chain relations were amongst the main weaknesses of the Chilean agribusiness complex (Jordán, 1999; Fundación Chile, 2000; Peppelenbos, 2000a). Therefore, CORFO and the Ministry of Agriculture elaborated the PDP program, under which an agribusiness firm received during four years state subsidies to diagnose its supply chain, and implement an action plan to improve the relations in the supply chain and the skills of the individual chain segments (CORFO, 1996).

The central objective in Tomatio's PDP was to improve the profitability of the crop for both the industry and the growers, through the up-scaling and mechanization of farm production. The action plan contemplated interventions at three levels. At crop level, the plan included the introduction of IPM, drip irrigation, and 'full mechanization' (i.e. of tillage, transplanting and harvesting). At the level of growers, the plan aimed to improve

their technical knowledge, management skills, and commitment towards the company and the crop. At chain level, the plan was to increase transparency and trust, and to introduce a software system to monitor the crop and manage the supply chain. Thirty-five top growers were selected to participate in the program. They were offered a wide range of training activities, like workshops, field days, and excursions. The peak of the program was a trip to the USA and Canada, so that Tomatio's growers could witness by themselves that individual farmers manage to grow 6,000 ha of tomatoes. The PDP was Tomatio's ultimate response to the crisis in the Chilean tomato industry - an extremist move towards modernity, taking as example California, the world market leader in tomato processing.

1.5. The crisis in Tomatio's response to the crisis

Technologies cannot always be operated by simply following their directions for use. Explicit notions about the proper use of technologies do not always suffice, because technologies also contain implicit notions. Technologies are the materialization of human experience in a physical shape. As such, they contain implicit notions reflecting that human experience - i.e. knowledge, skills, interaction patterns, etc. The wider the differences between the context in which a technology is developed, and the context in which it is applied, the more strongly these implicit notions express themselves as problems. Tomatio is likely to encounter many problems in the implementation of its PDP, for there surely are many differences between California and Chile.

In California, tomato growers are on top of their crop. They are independent entrepreneurs, knowledgeable decision-makers, and skilful crop managers. Supported by a team of hired specialists, they themselves look for new technologies in an active quest for competitive advantage. Their farm business is optimized and computerized, and they know how to deal with every aspect of farm management. They are organized in branch organizations which sustain dialogue and negotiation with industry and state. But in Chile, tomato growers do what the industry tells them to do. They follow instructions provided by the company's technicians, and apply a standard technological package that comes with the contract. Many crop and business decisions are not taken by them, but for them. Most growers are financially dependent upon the industry and lack formal management skills, such as planning and budgeting. Most of them do not read their contract, and many do not know how to turn on a computer. Politically fragmented, they are isolated from institutional dialogue with industry and state. Even though many are skilful, strategic entrepreneurs, for some reason they tend to be highly dependent upon the industry.

This is well illustrated by a survey among Tomatio's sixty-three best growers, conducted by an external consultancy firm in 1999. The farmers in the survey have in average 5 years of experience in tomato growing, and a contract for 16 ha, on which they

yield 89 ton/ha, which is high compared to the national average of 70 ton/ha. Their farm businesses comprise 203 ha in average, 70 percent of which is rented land. Half of it is pasture land, the other half planted with maize, sugar beet, seeds, fruits, and vegetables. Thirty-two percent of the respondents have a professional degree, 38 percent finished secondary school, and the remaining 30 percent only had primary education. Thirty-eight percent have a professional administrator, and 98 percent an accountant. These indications of strong entrepreneurship contrast sharply with the second part of the survey on crop management. Fifty-six percent express no knowledge of nutrition, 43 percent feel ignorant about the use of pesticides, and 57 percent cannot recognize pests or diseases. In 90 percent of all cases, the crop is completely financed by the industry. Only 10 percent of farmers have a system for cost control.

The survey shows a paradox between strong entrepreneurship in general, and strong dependency in tomato growing in particular. In other words, the dependency of the growers upon the industry is not an intrinsic property of farmers - given by God or Nature - but a specific circumstance of the tomato scheme. The lack of knowledge and skills of the tomato growers is not a problem in itself, but rather the symptom of a problem. This problem unfolds itself the moment we ask ourselves why the farmers fail to manage the crop by themselves. Why don't they know how to distinguish *Alternaria alternata* from *Cladosporium*? Why don't they control production costs? Why don't they succeed in obtaining credit for a contracted crop? The answer to these questions is surprisingly simple. The growers do not know how to manage the crop by themselves, because they never needed to know - there was always somebody from Tomatio to make the decisions for them. When the crop displayed strange spots, a technician was there to tell whether these were caused by *Alternaria alternata* or by *Cladosporium*. When a farmer was in conflict with his workers, a technician would come, take some cash money along with him, and resolve the issue. A farmer never developed systems for cost control, because Tomatio was the one determining at what price, where, how much, and what inputs and services the farmer had to buy.

In short, there is an organizational cause behind the dependency of tomato growers. Tomatio's contract scheme endows farmers with minimum responsibility and decision-making power. It is nothing but logical that the growers never developed the knowledge and skills to manage the crop by themselves. Their knowledge and skills are optimized for operating in a context where somebody is always around to tell how and when to do things. The dependency of growers is a direct result of Tomatio's supply chain model - a model that features centralized control, top-down decision-making, and a lack of room for grassroots initiative. Hence, the challenge that Tomatio is tackling in its PDP - the conversion of growers from 'hobby farmers' into crop specialists - is not a unilateral process. If the PDP is to be successful, then it should not only train farmer skills, but also improve the company's model of supply chain management. This is illustrated by Table 1.3. It shows how the shift from manual to machine harvesting - only one aspect of Tomatio's vision of the future - requires fundamental changes, not only in crop

management, production rationality, and farmer skills, but also in supply chain relations. Mechanization is technically so complex and all-encompassing that it requires a decentralization of decision-making power, and new task divisions between farmers and technicians.

Table 1.3: The shift from manual to machine harvesting

MANUAL HARVESTING	MACHINE HARVESTING
Technical conditions of the harvesting process:	
Almost complete recovery of the crop (99%)	Partial recovery of the crop (85-90%)
Flexibility: the harvesting practices can be adapted to the conditions of the crop	Inflexibility: the crop must be managed so as to suit the requirements of the machine
Production rationality:	
Productivity: crop management aims at maximum yields at the expense of quality and control	Control: crop management aims at productivity as well as quality and control
Fragmentation: harvesting is separated from other tasks	Integration: planning of tasks to create optimal harvest conditions
100% mentality: "Don't leave any tomato behind"	90% mentality: "There are always crop losses"
Economy of scope: intensive use of labor	Economy of scale: to compensate for crop losses
Farmers' skills:	
To comply with the instructions of technicians	To plan and steer the cultivation process
To comply with the spray calendar, and call the technician in case of problems	To monitor the crop, analyze its conditions, and determine the opportunity of spraying, etc.
To perform cultivation tasks	To perform tasks in relation to crop development
Farmers' attitude:	
Tomato growing because of a lack of alternatives	The farmer is a crop specialist
Passively waiting for top-down innovations	Pro-actively looking for improvement
Dependent upon the industry	Independent manager
Undefined future in the crop; low investments	Wants to expand; willingness to invest
Supply chain relations:	
Industry provides standard technological recipes	Farmers buy tailor-made technologies
Industry takes major crop decisions	Farmers take decisions within defined parameters
Technicians control the crop and instruct grower	Farmers manage their crop with hired assistance
Technicians transfer new technologies	Technicians transfer knowledge and skills

Source: Elaborated by the author on basis of fieldwork material and Friedland and Barton, 1975.

What Table 1.3. shows for mechanization applies to IPM and automated supply chain management as well - they are complex technological innovations which require concomitant organizational innovation. Merely training and breeding of commitment among farmers will not do the job. If Tomatio wishes to improve the skills and attitudes of its suppliers, then the company will also have to 'improve' the working relations in which these skills and attitudes are developed and deployed - i.e. the supply chain model has to be redesigned. In other words, Tomatio's plans express the fact that the tomato

industry is suffering not only from an external market crisis, but also from an internal organizational crisis. The company intuits this crisis, but is unaware of its full dimensions. For though Tomatio wants to convert its suppliers into a fully-fledged chain segment, the means by which it steers this conversion are inappropriate. The transfer-of-technology model reproduces the company's current supply chain model - a centralist, top-down approach which has generated a chain of unskilled, dependent suppliers. As long as this patriarchal model is maintained, it is unlikely that growers will convert into specialized, fully-fledged chain partners. Tomatio's blindness to this contradiction of goal and strategy suggest that the company is stuck in everyday routines, and incapable of exploring new paths. Let us take a closer look at how Tomatio currently manages the supply chain.

1.6. Patron-client management in the tomato chain

Tomatio steers the tomato chain with a management model that follows the principles of patron-client organization. These principles may be summarized in five points (Chapter Two will provide a more elaborate theoretical account based on a review of literature). First, patron-client organization is dyadic, that is, it consists of a personalized, face-to-face relationship between two persons which is based on trust and loyalty. Second, patron-client relations are unequal. They are vertical relationships between two persons of unequal status - i.e. a powerful patron and a weak client. Third, patron-client relations entail interlinked transactions - patron and client are involved in a 'package-deal' exchange of multiple goods and services. Fourth, the terms of exchange are personalistic (as opposed to standardized), non-quantifiable, and based on a general sense of reciprocity. Fifth, patron-client organization is vertically integrated, and leads to weak horizontal structures at the levels of both patron and client.

Contract farming, as business relation between farmers and agribusiness companies, is fertile soil for the germination of patron-client relations. Particularly in the context of developing countries, contract farming can embody all five principles of patron-client organization. Though rarely using the concept of patronage, the literature on contract farming is full of case studies in which contract schemes are shown to exhibit one or more principles of patron-client organization. Many scholars emphasize the principle of inequality, in this case between a powerful agribusiness firm and scattered smallholder contract growers (e.g. Little and Watts, 1994; Watts, 1992, 1994; Clapp, 1988). Studies inspired by new institutional economics underline the principle of interlinked transactions (e.g. Key and Runsten, 1999; CEPAL, 1994; Grosh, 1994; Schejtman, 1994). More empirically grounded research reveals the principles of reciprocity and personalistic terms of exchange (e.g. Vellema, 2001, 1994). Finally, a number of studies focus on the principle of weak horizontal organization (e.g. White, 1997; Korovkin, 1992; Glover and Kusterer, 1990; Glover, 1987).

Tomatio's contract scheme embodies all five principles of patron-client organization. First, the business relation between Tomatio and its contract growers is unequal in many respects. A rough calculation of the profit margins in the last decade - which includes the recent slump of world market prices - indicates that the industry enjoys double the net profit margin of growers, i.e. approximately 25 versus 13 percent (calculation based on fieldwork data). The inequality between Tomatio and the growers is also expressed in the stipulations of the production contract. The terms of contract endow Tomatio with all authority, in all decisions, under all circumstances. The 1999-2000 contract saddled the farmer with twelve obligations and one right, whereas Tomatio got seventeen rights and only one obligation. Even that single obligation was not unconditional:

> "Tomatio is obliged to buy and receive the production of the grower, according to the price and conditions established in this contract, except when the plants (...) cannot operate normally for reasons of *force majeure*, such as a lack of processing capacity, or others, in case of which the obligation to buy cannot be demanded" (contract 1999-2000, my translation).

Another inequality lies in organizational capacity and access to information. Growers are completely unorganized - they have no formal bargaining power nor any source of information except for the industry itself. The industry, on the contrary, is organized into a national federation, which fixes uniform prices across the entire tomato sector and holds a monopoly over information regarding production costs, profit margins, and market developments. The issue of organization will later be addressed more extensively.

In daily crop management, the relation is unequal as well. Decision-making power is strongly concentrated in the hands of the industry, whereas the growers are left with virtually no room for independent crop decision-making. In my survey among Tomatio's technicians, managers, and thirty-five top growers, the respondents were asked to quantify the authority of growers in a series of crop management decisions. They were also asked to indicate how much authority growers should have in ideal circumstances. The outcomes are summarized by Table 1.4. The table shows that even the stakeholders themselves acknowledge the unequal nature of their relationship. They agree the division of authority is unbalanced - in favor of the industry - and that farmers should have more decision-making power. Interestingly, they also agree that the wider the decision's impact upon business results, the more unequal the division of authority. Most lamented in this respect - by both growers and industry - is that growers have no say about where to buy machinery services. This lack of free market operation blocks any performance drive upon the machinery contractors, due to which their services are in general below standard. This illustrates that the division of authority in the tomato chain is not based on a rational analysis of what decisions are best taken by whom. It rather seems inspired by the logic of patron-client organization, in which the patron decides what is best for the client.

Table 1.4: Perceptions on farmers' authority in crop production (in 2000)

Farmers' authority in...	Perceptions by farmers		Perceptions by the company	
	Real situation	Desired situation	Real situation	Desired situation
Daily crop management[1]	57%	66%	39%	52%
Strategic crop decisions[2]	42%	66%	18%	26%
Business decisions[3]	9%	62%	5%	39%

Source: Fieldwork data (n=50)

1 - Daily crop management: day-to-day decisions in the management of the crop

2 - Strategic crop decisions: decisions with a major impact upon crop results (like what variety to plant)

3 - Business decisions: farm management decisions (like where to buy inputs)

Second, the tomato chain entails an interlocking transaction of multiple goods and services. Tomatio provides literally everything a farmer needs for farming - i.e. a market outlet, working capital, investment loans, agro-chemicals, seedlings, boxes and bins, technical assistance, spraying calendars, machinery services, irrigation infrastructure, new machinery, management software, assistance in applications for state subsidies, and more. In return, the farmer provides Tomatio with tomatoes produced on his land by his labor and - not less important - a loyal demand for inputs, technologies and financial products. The services provided by Tomatio are not confined to tomato growing alone. It is an explicit policy of Tomatio's holding group to provide all-encompassing support to Chilean farmers and lead them along the road of progress and modernization. One of Tomatio's sister companies is Chile's leading distributor of agricultural technologies; another sister is Chile's only specialized agricultural financer. Clearly, the tomato contract scheme is not only about producing tomatoes - it is above all an interlinked transaction of multiple goods and services.

Third, the terms of the business transaction between Tomatio and contract growers are personalistic. There are a thousand-and-one ways in which the standard contract terms are renegotiated and transformed into particularistic business terms. This subtle process of individual renegotiation occurs within the realm of face-to-face interaction between the growers, technicians and managers. Some growers get loans for non-tomato investments - others not. Some growers need just one phone call to have a technician on their fields within an hour - others suffer crop losses as they wait for support. Some growers get the exact hybrids they want - others do not even know what they are planting. Some growers get as many harvest vouchers as they need - others are told to stop harvesting when the queues at the plant are too long. Some growers have low discounts at quality control - others have entire trucks rejected. The dyadic renegotiation of contract terms is not a mere appendix to the contract. For growers it can define the difference between making profit or losses, while for the industry it constitutes a central

mechanism of control. The differential allocation of privileges generates loyalty and compliance, as it makes the individual grower perceive he is in a relatively privileged position - or fear that he is not (Hart, 1986).

This differential allocation of privileges varies according to the size of the grower. Large-scale growers have more negotiation power than smallholder farmers, because they imply lower transaction costs and more logistical control for the industry. It also varies according to the farmer's management skills - the company is delighted to offer special treatment to a grower who manages the crop independently, works timely, and accomplishes high-quality production. Another important factor is trust and loyalty - the company seeks long-term business relations with growers who act in predictable and controllable ways. The company will reward growers who follow instructions, are committed to the crop, and show gratitude to the company. Growers who publicly slander the company or engage in collective bargaining will be isolated and ejected from the scheme.

Nowhere is the personalistic allocation of rewards clearer than in quality control. Realized by the company itself, quality control is regulated by standard procedures but executed with great flexibility. The sample can be taken in the upper layer of the gondolas, where the tomatoes are fresh and shining, or further below where tomatoes have already been transformed to a kind of paste. The staff doing quality control are young fellows with a low degree of formal education and without previous training in the application of quality standards to raw material. Their decisions whether to discard a fruit or not are taken in reference to giant pictures on the walls, which display the different types of potential damage to a tomato fruit. The company is perfectly aware of this situation, but not eager to change it. In my survey, 86 percent of managers and technicians asserted that quality control is unreliable, the sample unrepresentative, criteria inconsistently applied, and personnel not knowledgeable. Nevertheless, 50 percent responded negatively to the proposition that an objective, inflexible system of quality control would be better. The underlying reason for this remarkable response is that flexibility in quality control enables the company to steer the behavior of growers - it is a tool for managerial control. It enables the company to reward loyal farmers for good behavior, to keep unfortunate farmers out of the red, and to compensate farmers prejudiced through the company's fault. It also allows the company to attract new growers with special treatment, or to produce more paste when world market prices are high. In conclusion, the case-to-case reinterpretation of uniform contract terms - in particular of quality standards - is a central organizational principle in Tomatio's supply chain.

Fourth, horizontal cooperation is virtually absent in Tomatio's scheme. Besides a handful of local, isolated groups organized around the collective purchase of inputs, there is no institutionalized form of horizontal farmer cooperation. This absence of farmer organization is primarily related to the differential allocation of privileges, as discussed above. Perceiving they are in a relatively privileged position, growers are careful not to endanger their individual relation with the company's personnel. They

follow a conservative wait-and-see policy towards any venture that might be considered threatening by the industry - such as farmer organization.

Intra-industrial cooperation is also made difficult by the logic of patron-client organization, even though the industry is well organized. FEPACH - the national federation of the Chilean food processing industry - is well positioned within the Chilean interest constellation, serving its members by political lobbying, joint market promotion, trade statistics and, most importantly, collective negotiation with ocean shipping lines. In the area of crop production, FEPACH has successfully mediated the competition among the tomato processors over suppliers (Perez-Aleman, 2000). Due to the expansion of contract crops, there is a scarcity of farmers satisfying the profile desired by the tomato industry. For a long time the companies competed over the best growers by offering higher prices. But the upward pressure upon producer prices and massive occurrence of piracy sales induced the industry to arrive at a gentlemen's agreement. By establishing common prices for raw material, the industry displaced the competition over suppliers from price on to secondary contract conditions. Nowadays, "the Chilean tomato producer receives one of the lowest prices in the world," as publicly stated by an executive manager from the sector (Sáez, 1991: 167). However, the establishment of a nation-wide price cartel has converted agricultural innovation and quality control into competitive assets to attract and bind growers. By consequence, crop innovation and quality control are in Chile confidential operations by individual agribusiness firms. In other countries, such as the USA, quality control is regulated by the state, and agricultural innovation is a cooperative effort of industry, universities and farmer organizations. But due to the lack of cooperation at the top, the Chilean tomato industry suffers from sector-wide disrespect for quality standards and from a severe lack of innovation capacity. In this way, the long-run sector interests are undermined by short-term competition over growers.

Finally, as can be concluded from some of the previous points, the central pillar upon which the tomato chain rests, is dyadic contact between growers and Tomatio's staff. Face-to-face interaction is the key mechanism for managerial control in Tomatio's contract scheme. The job of growers, technicians and managers is structured in such a way, that good personal relationships are indispensable for individual performance and benefits. To make high profits, a grower needs a good relation with the technicians and zonal managers, for they are his access to resources and protection against misfortune. Whether or not a grower gets his preferred hybrid depends on the technician. Whether or not a rejected truck can be 'arranged' to pass through quality control depends on the zonal manager. Through the technicians and managers, the growers compete over scarce resources and special privileges (see Vellema, 2002, on the crucial brokerage role of technicians in contract farming schemes). Growers are well aware of this:

> "My technician is the channel for all my problems. He has to resolve them, and assume responsibility."

> "When my technician changed to Tomatio, I went along with him. I like his services, he really identifies himself with the farmer... Our communication is a friendship. Through him, I have established friendship with all the people in the company."

To obtain a good income, a technician needs good personal relations with his growers, for their performance determines his salary. The salary of a new technician starts at 350,000 *pesos* a month - approximately 500 dollars - but this can be complemented with 'additional months.' Evaluation criteria for the payment of additional months are yield increases, quality improvement, increased use of machine harvesting, increased average crop area, and decrease in indebtedness. The technicians are well aware of the importance of good personal relations with their growers:

> "Most farmers are dependent and lack initiative. We have to be behind everything to ensure that tasks are done in time and that good results will be achieved. But with my older farmers, I have confidence. A respectful, amiable treatment is fundamental. Without mutual trust and commitment, it is difficult to achieve good results."

> "When visiting a farmer, after inspecting the crop, we keep talking for 15 minutes about other things, like soccer or personal affairs, so that the relation improves and the farmer understands that we are not only interested in his crop, but also in the farmer himself, as a person."

To have managerial control, a manager depends to a high degree on the dyadic contact between growers and technicians. The field visits by the technicians are the principal interface between the company and its suppliers. They constitute the manager's sole source of information about the state of the crop, and his key mechanism for handing out instructions to the farmers. This is reflected in the formal management systems of the company. For instance, in the area of crop production Tomatio's information systems are calibrated at the level of technicians. The annual evaluation of the season expresses its conclusions per technician. Production targets for the next season are also expressed per technician. In other words, not only policy-enforcement, but also policy-making is based on the dyadic contact between growers and technicians.

In conclusion, all five principles of patron-client organization are manifest in the tomato chain - i.e. an overarching patron and a clientele of fragmented growers are involved in a package-deal transaction for the exchange of multiple goods and services under unequal terms of trade redefined through dyadic renegotiation. Obviously, many of these features will be present in food chains all around the world. European farmers, for instance, also find themselves in unequal business relations with processors and retail companies (Dobson et al., 2003; Reardon and Barrett, 2000). As stated earlier, vanguard transnational corporations also seek personalized, long-term business relations with preferred suppliers (Vellema and Boselie, 2003). More in general, interpersonal trust is vital in any business relation (North, 1990), and economic

transactions are always embedded in social relationships (Granovetter, 1985). But the point here is that all principles of patron-client organization are systematically present in Tomatio's model for supply chain management. Patron-client organization has been so long established in the Chilean tomato industry - and in wider society, as we shall see - that it produces fragmented, dependent farmers subjected to a patriarchal chain leader. Chapter Five will put more life into this analysis by presenting an in-depth case study of daily practices and perspectives in the tomato chain. For the moment, we continue to explore how patron-client management hampers the performance of the chain.

1.7. Hampered chain performance and frustrated innovation

The performance of a supply chain depends on how well the different chain segments perform and interact. Good chain performance requires synergistic relations between specialized chain segments (van Dalen, 1994). At first glance, the tomato chain seems to comply with this criterion - the growers produce tomatoes, the technicians assist them in producing tomatoes, the machinery contractors provide specialized services, and the industry processes tomatoes into paste. This appears a logical and strictly functional division of tasks between specialized chain segments. The problem is, however, that this task division is different from the division of decision-making power across the chain. This dissonance is caused by Tomatio's patriarchal style of chain leadership. Authority and initiative are strongly concentrated in the hands of Tomatio. It is the farmer who performs pest management, but it is the technician who makes the decision as to what pests must be combated by what means. The farmer hires and pays machine harvesting services, but the zonal manager makes the decision as to who will harvest the farmer's crop, at what price, and on what day. In other words, the production relations in the tomato chain feature a separation between the making and implementation of decisions - or, in Taylorist terms, between conception and execution. Due to this separation, the division of authority across the chain is asynchronous in regard to the division of tasks. This generates two fundamental problems in the performance of tasks.

First, responsibilities get blurred. In case of losses or damages - far from uncommon in agriculture (Goodman et al., 1987) - it is unclear who is responsible for what. When the crop is affected by a virus, is that the responsibility of the technician who did not come in time or recommended a wrong product? Or is it the responsibility of the farmer who did not call the technician in time or did not fumigate well? Or is it the responsibility of the R&D department that made a wrong diagnosis? Nobody knows. On paper, things are clear. The contract says:

> "All risks that could affect the crop, whatever their cause, motive of origin, are exclusively for the grower. Tomatio will under no circumstance be responsible for crop losses or damages, even though its specialized personnel participates in the development of the crop through its service of technical assistance."

In the field, however, there is a battle going on between farmers blaming Tomatio, and company personnel blaming the farmers. For instance, in the season of 2000-2001, the seedlings provided by the industry were massively infected by an unknown fungus. Twenty percent of the crop was lost, and growers incurred additional fumigation costs of roughly 140 dollar/ha. Whose responsibility was it? Growers blamed Tomatio, for the company had provided the seedlings and had made them transplant the seedlings in spite of their fierce objections. But Tomatio's management blamed the nursery who had produced the seedlings, as well as growers and technicians, for they had not followed the instructions provided by the management. In the end, growers had to assume the extra costs. The point is that if responsibilities had been well defined, the whole incident would not have happened. If growers would have had the authority to reject low-quality seedlings, they would not have transplanted the seedlings. If Tomatio were liable for the seedlings it provides, it would not have made the growers transplant the seedlings.

This dissonance of authority and liability is not unique for Tomatio's supply chain. Vellema (2001) shows that technological uncertainty and organizational incoherence are present to a high degree in all contract production schemes, particularly in developing countries. They are points for ongoing negotiations between growers and industry - i.e. negotiations about what is technologically possible, what are appropriate ways of dealing with crop problems, and who is to be held responsible for what (2001: 191). In Tomatio's scheme, however, these negotiations take place within a structure of patron-client relations. On a formal level, Tomatio has all authority and no liability, while growers have no authority and all liability. Informally, growers and industry negotiate over this - but only in a dyadic way and never collectively, hence, these negotiations do not lead to a formal reconsideration of tasks and responsibilities across the supply chain. The end result is indistinctness as to who is responsible for what - not a good starting point for efficient crop production.

Second, the Taylorist organization of crop production leads to increased transaction costs and losses of time and quality. Decisions that are not made at the level where they are to be implemented are generally not made in time. How can one expect proper pest management when the farmer is unskilled and the technician responsible for 350 ha of tomatoes scattered among 50 different farmers? Increased autonomy for farmers would imply that more decisions would be made in time and more tasks performed without the interference by technicians. Less personnel, pickups and gasoline would be needed. This is well illustrated by the way in which the harvest machines are maintained. Machine harvesting is formally the responsibility of specialized machinery contractors, but in practice steered by Tomatio. By consequence, most contractors never learned how to diagnose and resolve mechanical problems with the machines. In the harvest season - always strenuous and sweltering - it is a common view to see the machinery contractor and his staff waiting in the field, together with a stressed-out farmer, for somebody from Tomatio to come and resolve a problem with the machine. A telling example of how the separation of conception and execution has created a double operational structure in

which decisions are often made untimely and transaction costs increase unnecessarily.

Hence, under Tomatio's patriarchal chain management model, the chain partners are far from specialized, and their interaction far from synergistic. Interfering in tasks that should not be of its concern, the company is overloaded with responsibilities, hence, unspecialized. Executing decisions made by an overarching hierarchy, the growers and machinery contractors have never learned to manage their business independently - i.e. they are unspecialized as well. On top of this, the chain partners cooperate inefficiently, because the terms of their interaction are not clearly spelled out. Responsibilities are blurred, and the enforcement of standards and procedures is unreliable. Every farmer knows, for instance, that the enforcement of quality standards is case-sensitive and with high world market prices a mere formality. Hence, the farmer will not aim at high-quality production, but simply produce as much as possible and try getting it through quality control with as low discounts as possible. In other words, quality standards are not taken as objective guidelines in crop management, but as obstacles to be overcome by either good personal relations or by swindling. The latter is done by pouring green fruits out on the bottom of the gondolas and covering them up with a top layer of red fruits - a technique locally referred to as *la cuchufleta*. As will be shown in Chapter Five, cheating by farmers is highly significant - it can represent up to 50 percent of farm net profits. Cheating not only generates quality problems for the industry, but also hampers the transition to machine harvesting (Peppelenbos, 2000b). The machines automatically discard the green fruits and thus eliminate the possibility for swindling. Hence, the flexible enforcement of quality standards not only induces massive swindling, but also hampers mechanization.

But this is not the only way in which Tomatio's paternalistic management approach frustrates the process of technological innovation in the tomato chain. In the area of R&D, the patron-client model takes on the guise of a transfer-of-technology model which concentrates all initiative in the hands of the company, and converts growers into passive recipients of new technologies. This model of top-down innovation results in standard technological packages that get adapted only when applied at farm level. Tomatio's growers are scattered, however, across a vast production area extending 500 km from North to South and lodging a wild diversity of soils and micro-climates. A child can predict the kind of problems emerging from the application of uniform recipes to such diverse agro-ecological conditions.

In addition, the optimization of crop production suffers from a clash of interests inherent to Tomatio's patriarchal style of chain leadership. Tomatio's business interests are not only the production of tomato paste, but also the sale of agro-chemicals to its suppliers. As a tomato processor, Tomatio would like to keep the costs of crop production as low as possible, in order to keep its suppliers content and prices low. However, as a distributor of agro-chemicals, Tomatio would like to make production costs as high as possible, in order to maximize its sales. Hence, Tomatio accommodates within the company a clash of diametrically opposed interests. In practice, the company

protects both interests and chooses a middle position. This implies, however, that crop production is not optimized. For instance, experiments at the University of Talca suggest that current yields can be obtained with nitrogen applications of 80 kilo/ha, whereas Tomatio recommends 225 kilo/ha. These problems would not exist if Tomatio would simply focus on tomato processing - like its competitors do - and thus prevent contradictory internal goals. However, due to a patrimonial corporate culture (Chapter Five), the company chooses to position itself within the chain as an overarching patron providing all-encompassing services to its suppliers.

The patron-client chain model also hampers the development of a service providing industry. There is no free market in the provision of services to tomato growers - it is Tomatio that determines who provides what service to whom, at what price and when. Imposing itself in-between the growers, machinery contractors and seedling nurseries, Tomatio is blocking out the blessings of the free market. There is no pressure upon the contractors and nurseries to improve their services or to lower their prices, as they do not compete with one another over market share. This explains the massive infestation of tomato seedlings in 2000-2001. The Chilean tomato industry procured seedlings from only one nursery, a company that started operating in the 1970s parallel to CORFO's tomato project. In almost 30 years, nobody bothered to diversify the supply of plant seedlings. It required a major incident to change this monopsonistic situation. After the fungus drama, Tomatio started contracting seedling production among thirteen different suppliers.

In conclusion, the performance of Tomatio's supply chain is severely hampered by the company's patriarchal management style. The chain partners are unspecialized, their interaction is inefficient, and innovation is constrained. The tomato chain is far from exhibiting the features of ideal-type chain cooperation - i.e. specialization, mutual trust, open communication, clear rules, integrated business processes, and shared visions (cf. Zuurbier et al., 1996; van Roekel, 1996). To support this conclusion, the next section presents an in-depth study of the organization of machine harvesting. It will show that Tomatio patronizes not only poorly educated farmers, but also qualified professionals - i.e. the machinery contractors.

1.8. The paternalistic organization of machine harvesting

Mechanization is central to Tomatio's plans for reviving tomato production, but so far the transition to machine harvesting has been far from smooth. After eight seasons, machine harvesting is still limited to less than one-quarter of the crop. Few growers are inclined to switch and the machinery contractors are making huge losses. The hesitance of the transition is related not only to technical problems in machine harvesting, but also to the patriarchal management model with which mechanization is organized and promoted (Peppelenbos, 2000b).

There is no market in machine harvesting services. A grower cannot hire the contractor he prefers to harvest his crop and the machinery contractor cannot fix his price, nor schedule his own work. The transactions between growers and contractors are managed by Tomatio. A grower who wants to machine harvest, signs an annex to his contract with Tomatio and is allocated to one of the machinery contractors working with the company. The first and only occasion when grower and contractor meet each other, is when the machines enter in the fields to harvest. Tomatio regulates the encounter between offer and demand - fixing prices, procedures, tasks and work schedules - and pays the work realized by the contractor. During the harvest period, Tomatio hires four additional staff members to be in the field the whole day, controlling and supporting the machines.

It seems odd that Tomatio imposes itself in-between grower and contractor. A free market in machine harvesting services would have two important benefits. First, it would stimulate the performance of the machinery contractors. Under the current set-up, Tomatio gives each contractor a similar harvest schedule, thereby eliminating free competition and protecting those who offer bad services. In consequence, machine harvesting services are not as good and cheap as they might have been under free market conditions. Tomatio's management model suffocates private initiative, leaves excellence unrewarded, and impedes the emergence of a mature harvest service guild. Second, a free market model would leave it clear to anyone who is responsible for what. Under the current set-up, it is unclear whether the grower or Tomatio is responsible for having the fields in conditions for harvesting. It is unclear whether the machinery contractor should go and buy a screw to fix the machine, or the representative of the industry. Tomatio's self-imposition blurs the task division in machine harvesting.

A good example of what happens when Tomatio intervenes excessively in the tasks of specialized machinery contractors is the decision-making process in the early nineties as to what harvest machine should be purchased. In search of a machine well adapted to Chilean conditions, the industry looked to European rather than American technology, as European agriculture comes closer to Chile's intensive, small-scale farming systems. The first machines that arrived were tractor-driven, low-potential machines designed for small holdings. An unconvinced Italian industrialist - at the same time a large-scale tomato grower - traveled to his home country in 1991, visited all manufacturers, became friends with Luigi Sandei, and came back with a high-potential, auto-engined Sandei to harvest his crop of 80 ha. Despite its successful performance, it was 1995 before Tomatio definitely opted for Sandei and purchased four machines. Other tomato industries soon followed, and now Sandei is the dominant player in Chile with 90 percent market share. The proprietor of Sandei-Chile - the son-in-law of our Italian pioneer - happened to be in charge of Tomatio's mechanization program at the time the choice for Sandei was made. It is impossible to tell whether that choice was inspired by family ties, but it is clear that Tomatio never made a careful comparative analysis between Sandei and equivalent alternatives.

Now, in 2003, all machines operating at Tomatio are Sandei, except for two American FMCs, which, in spite of everybody's skepticism, were brought to Chile in 1996 by a machinery contractor who was unsatisfied with the performance of Sandei technology. Presuming that California-dimensioned machines would be too big and heavy, Tomatio turned down his request for financing and refused to allocate growers to the FMC. Only after seeing his performance for a competing company did Tomatio believe the American dream of the machinery contractor and started to give him clients. The company refused, however, to help finance his second FMC. The persistence of the machinery contractor has done him well. Of all 16 machines operating at Tomatio, only the FMCs are profitable. While the break-even-point in machine harvesting lies at around 50 ha/season (in 2000), the Sandei harvested 41.4 ha in average and the FMC 88.6 ha. Furthermore, the FMCs work is cleaner, receiving an average 1.3 percent discount, whereas the Sandei average operates at 2.9 percent discount. With its initial choice for Sandei, Tomatio opted for a non-optimal technological path, into which it became 'locked' because of increasing returns to adoption (cf. Arthur, 1989). This lock-in has now been broken - new machines arriving to Chile will surely be FMCs. But as long as the Sandeis have not been mothballed, the tomato sector is condemned to expensive, unprofitable machine harvesting. Until today, mechanization is undermined by the thoughtless decision of overconfident managers.

Why does Tomatio interfere in the tasks of the machinery contractors? Why does it organize machine harvesting hierarchically if a market could regulate it well or better? One argument put forward by the company is the need to control harvest logistics. But why intervene directly in the harvesting process if logistics can also be controlled through the allocation of harvest vouchers? Tomatio's second argument is that the machines have been financed by the company and leased to the contractors under five-year loan arrangements which are paid back through harvesting for the company. Hence, machine harvesting is a financial transaction between three parties, in which the accounts are settled by the financier, Tomatio. But again, these financial issues can be dealt with in various forms - they do not necessarily imply a direct operational control over the harvesting process.

It is not because of a lack of viable organizational alternatives that the harvest should be regulated hierarchically. The company intervenes in machine harvesting because it considers the contractors incapable of realizing a successful harvest. Although most machinery contractors are qualified professionals, Tomatio considers its intervention indispensable for an orderly harvesting process. It thinks it should help the machinery contractors finance the machines - giving kind but coercive advice on what machines to buy - and do the job - providing fixed clients, work schedules, operational support and financial settlement of the transaction. This patriarchal approach to machine harvesting is not founded on a functional superiority of hierarchical organization *vis-à-vis* free market organization - it is founded on the company's distrust of its chain partners. Why this distrust exists will be explored in the next section.

1.9. The vicious circle of distrust

Management is a rational human activity - i.e. it is thought about, written down in procedures, and executed by professionals. A management model is supposedly the most efficient way to get things done in a specific context. However, Tomatio's management model creates so many problems and inefficiencies that the tomato chain suffers a true organizational crisis. So why does Tomatio stick to paternalistic chain management? How can we explain the existence of highly inefficient management in an export chain subjected to strong competition? Does that not contradict the laws of the free market in a country praised for its neo-liberal economic regime?

To understand this puzzle, we need to step into the rationality of the managing actor and understand how Tomatio perceives patron-client management as the most rational way to get things done in the tomato chain. During my fieldwork, I asked the company's personnel how they view farmers and machinery contractors, and why they treat them the way they do. Their divergent answers had one commonality - distrust. The company considers growers and machinery contractors incompetent, irresponsible, and untrustworthy. Some illustrative opinions on the competence of growers:

> "The farmers have no self-reliance. They can't make decisions when the technicians are not there. They give the impression they suffer from an annual loss of memory."

> "Only five percent of the farmers are crop specialists. The others are badly accustomed to the technician telling them what to do. The farmer is very easy-going. He likes the company to take care of everything. He doesn't take responsibility himself."

> "We are very far from a situation where the farmer can work by himself. We need to give a constant push. They don't change their methods, if we don't tell them to. Without the company, this thing would have no future."

The attitude of growers is criticized as well:

> "The farmer promises to do the things you tell them to, but when you come back the next week, nothing is done."

> "When the results are bad, the farmer doesn't remember he irrigated badly or that he was delayed in tasks. The normal thing is to blame the company for bad results."

> "Previously, I put my hands into the fire for all my farmers. Now, for none of them. I don't defend anybody against my boss, because they all swindle."

> "The farmers ask, ask, and ask. They expect the company to give presents. They don't take into account that we are financing the whole crop, everything. They disregard the professional advice by our technicians, which we provide for free. In the mean time, they keep complaining. It is never good enough."

The opinions on machinery contractors do not differ much:

> "They are complicated. They spend their time behind a computer, or complaining about the company. They should be out there, in the field, working like everybody else does."

> "The contractors rely on the company to solve their problems. They should involve themselves, be committed to their task, and not let the company be their tutor."

This distrust is not absolute. The technicians and managers distinguish 'good farmers' from 'the small ones,' and show respect, friendship and other sincerely positive feelings towards individual growers and contractors. Asked about positive aspects in their work, the technicians mention good communication, mutual trust, respect, and the disposition of farmers to listen. Nevertheless, when asked to explain their way of doing, technicians and managers express a basic belief that both growers and contractors cannot be trusted. This distrust is what inspires Tomatio's centralistic management approach. For management models are worst-case-scenarios - just as buildings are constructed to withstand earthquakes and contracts are arranged to secure rights and obligations under any circumstances, so organizational systems are constructed to be prepared for any event. If the real situation is more favorable than the worst-case-scenario, then not all rules are applied. But they are there ready to be applied in case of need.

Convinced that farmers and contractors cannot be trusted, Tomatio has constructed ways to deal with that problem. Its working procedures are designed to deal with farmers and machinery contractors who are incompetent and irresponsible. So emerged a centralized, control-focused contract scheme in which an all-encompassing hierarchy steers all operational processes through a vast structure of top-down command and compliance. Though such a regime does not eradicate the supposed problem, at least it gives the company all authority and the means to act as it deems necessary. The contract itself is illustrative in this respect - it submits the growers to the authority of Tomatio's staff, at any time, under any circumstances. On top of that, farmers are kept fragmented - any collective venture crashes on the company's unwillingness to accept farmer leadership. Likewise, the machinery contractors are kept under control through the centralized allocation of clientele. Last but not least, all information in the tomato chain is managed by the company - apart from the figures provided by Tomatio, growers dispose over no reliable sources of information on issues like production costs, markets, margins across the chain, and prices in other countries.

It is, however, not the company's wish to build a police state in which farmers are squeezed and exploited. On the contrary, Tomatio genuinely believes it is supporting farmers and machinery contractors in their development as agrarian entrepreneurs. The company sees its chain partners as irresponsible and untrustworthy - but above all as incompetent and in need of a 'push.' Everything the company does, so goes its rhetoric, is meant to support the well-being of growers and contractors. For Tomatio does well

only, when its chain partners are doing well. This paternalistic element in Tomatio's management approach is brought about by personal, face-to-face interaction with the growers and contractors. This allows for flexibility in the exercise of control - standard rules and procedures are adapted to the characteristics of each individual. A 'good farmer' is allowed more freedom in crop management, whereas 'small ones' are strictly controlled. Flexibility is also built into the incentive structures. Scarce goods, services and privileges are provided along personal lines to stimulate loyalty and compliance. 'Good farmers' receive better seedlings, more harvest vouchers and investment loans, whereas 'problematic farmers' are taught a lesson by rejecting their trucks of harvested products.

Hence, granted its notion that chain partners cannot be trusted, the company has constructed a chain regime ready to deal with a bunch of incompetent and irresponsible farmers and contractors. This regime combines authoritarianism with paternalism, oppression with protection, centralized control with personal privileges, and resentment with loyalty. It might not be the most efficient regime from the perspective of integrated supply chain management, but it seems rational so long as managers believe that farmers and contractors are incompetent and irresponsible.

There are strong reasons to question the notion that growers and contractors are by nature untrustworthy. But on the other hand, it cannot be assumed that Tomatio's staff is psychotic. Field observations confirm their distrust of farmers and contractors. There are farmers who cannot distinguish an fungal infection from a viral attack, fields that are not well prepared to be transplanted while the seedlings are wilting away, massive cheating and piracy sales, harvest machines stopped for days, farmers who cry down the company. These are daily practices in the tomato chain. Hence, it is comprehensible that the company concludes that growers and contractors are irresponsible and incompetent. But what makes the growers and contractors behave like that? Asked to explain their way of doing things, growers and contractors respond as follows:

> "Everything is regulated by them. It's absurd. I have to do exactly what they tell me. (...) There are too many regulations, it is too bureaucratized."

> "There is no team spirit. It's a big part for them, and a small part for us."

> "The problem is that the company tries to clench the entire chain. It makes profits on all sides. It should focus on producing paste, and stop selling obligatory services to the growers."

> "I don't ask to negotiate the price of the tomato. But why can't I negotiate other aspects of my business? Why can't I do direct business with nurseries and machinery contractors?"

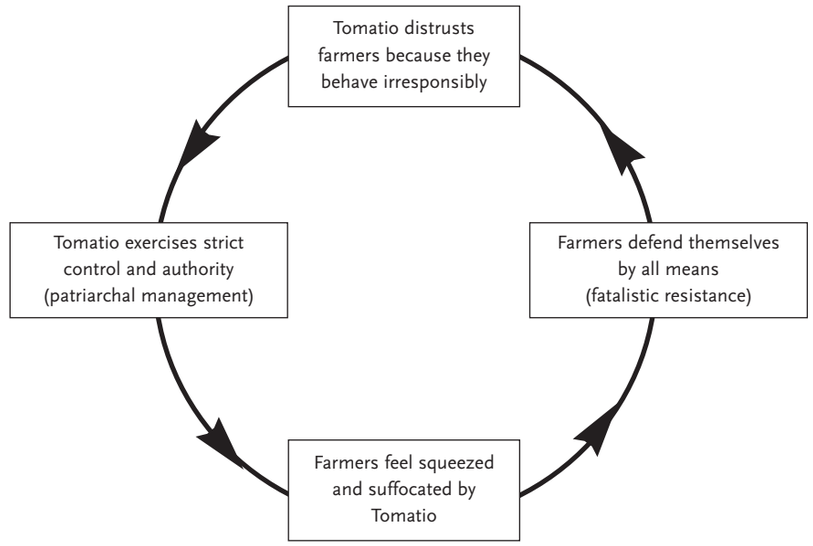
> "They are crooked. They use a double standard. I cannot trust them. I cannot expect to be respected. I am their friend, but they lack honesty and seriousness. They say one thing and then do another."

> "Yes, we all cheat. It's our defense. What do you expect me to do with these prices? The industry cannot expect quality for these prices."

> "I need autonomy; freedom to do direct business with farmers. I need competition. Competition makes my blood run. I need clear rules, a contract, and I need the industry to respect these rules. Because they change the rules continuously. Here in Chile, we are hypocritical and indolent. Our systems are fraudulent. Each of us makes our own justice. Agreements are made under the table. Nobody recognizes his errors."

These answers make clear that the behavior of farmers and contractors is inspired by distrust of the industry. They perceive the company pulls all the strings, and they feel suffocated and abandoned. They experience a lack of freedom for individual business decisions and an arbitrary enforcement of standards and procedures. They see no reliable link between effort and reward. These perceptions inspire a pattern of behavior which looks as if the growers and machinery contractors indeed lack any commitment and sense of responsibility. They are reluctant to invest in the crop because they feel at the mercy of an unreliable authority. They obtain justice by swindling and bending the rules in their favor, because they feel victims of injustice and arbitrariness.

Figure 1.4: The vicious circle of distrust



The sum of both parties' perceptions is a vicious circle of distrust (Figure 1.4). The distrust by the company nurtures distrust among growers and contractors, which again nurtures the distrust by the company, etc. This vicious circle of distrust underpins a self-sustaining interaction between Tomatio's patriarchal management style on the one hand, and fatalistic behavior by farmers and contractors on the other. Patriarchal management by Tomatio provokes the response of fatalistic behavior among growers,

which in turn legitimizes Tomatio's patriarchal management style. The chain partners remain trapped in this type of interaction, because for each of them acting as either patron or fatalist is the best rational way to get things done. Hence, here we have an answer to the puzzle why the chain is organized along inefficient patron-client principles. It is the vicious circle of distrust which sustains the patron-client model of supply chain management. Patron-client management may not be the most efficient way to organize an export-oriented supply chain - but it surely seems the most rational way to organize a supply chain plagued by distrust.

1.10. Interpersonal trust versus institutional trust

The vicious circle of distrust is a plausible line of reasoning, but not yet fully satisfactory. If there is distrust from both sides, then why do the chain partners maintain their business relation? For trust is - at least in theory - a prerequisite to economic transactions (Fukuyama, 1995; Granovetter and Swedberg, 1992; North, 1990).

The answer to this puzzle lies in the distinction between interpersonal and institutional trust (Galjart, 2002; Sodano, 2002). Interpersonal trust is the trust that exists between two or more persons - it is build up in repeated face-to-face interaction and refers to personal characteristics of the other. Interpersonal trust involves the stakeholders in more than a single role - it is in essence a commitment to the other person; the actors relate to each other's total identity (Galjart, 2002). Institutional trust, by contrast, is impersonal. It exists between groups or categories of persons - it is a vaguer, more abstract form of trust. Institutional trust is, in Fukuyama's terms (1995), the expectation of regular, honest and cooperative behavior based on commonly shared norms and values. It refers to the terms and procedures of interaction rather than the characteristics of the other. Interpersonal and institutional trust are not necessarily in accordance. We might trust a person but distrust the institution represented by that person, and vice versa. Indeed, the two forms of trust may work against each other. Fukuyama (1995) asserts that interpersonal trust relations have a 'radius of distrust,' and Orrú states that the reverse side of personal trust is 'generalized distrust toward, and disrespect for the system' (Orrú, 1997, cited in Galjart, 2002: 62).

In the tomato chain, there is strong interpersonal trust but weak institutional trust. Personal trust relations are absolutely central to the functioning of the tomato scheme, as has been shown. It is in the interest of all stakeholders to have relations of friendship and trust. The growers need them to get access to scarce resources, privileges and protection. The technicians need them to get a higher income - as their income depends upon the performance of their growers. The manager needs them as a means for managerial grip. This situation in the tomato chain is confirmed by the theoretical claim that interpersonal trust is vital to patron-client organization (e.g. Rodríguez et al., 1999; Eisenstadt and Roniger, 1981). Mutual trust, respect, and loyalty sustain patron-client

relationships in spite of their unequal, repressive and exploitative aspects. They turn clientelism into a mutually beneficial if asymmetric experience.

Institutional trust, however, excludes these feelings. Institutional trust is impersonal - it refers to the general terms and procedures of interactions. In this respect, the growers have strong reasons to distrust Tomatio. They submit to the authority of the company, and are ill-informed, deprived of autonomy in decision-making, and without formal bargaining power. There is no reliable law enforcement - standards and procedures in the tomato chain are unilaterally defined, flexibly applied, and arbitrarily changed. But also the company has strong reasons to distrust its chain partners - the growers lack the skills to run their business independently, and massively concur in swindling and piracy sales.

In sum, the tomato chain features a low degree of institutional trust and a high degree of interpersonal trust. This situation is supported by data from my survey. I asked the growers to quantify their trust in their technician and zonal manager - the average outcome was 6.3 on a scale from one to seven. However, when asked to quantify their trust in the company, the average outcome was 3.3 only. In other words, growers' interpersonal trust scores high, but their institutional trust low. This situation is expressed in opinions like these:

> "I trust the agricultural part, but know nothing of the commercial and industrial parts."

> "No, for me it's different. I have a good 'arrival' and meet with a kind reception."

> "We are lucky to be big and listened to... The little one is the loser... Being a big farmer, one can demand."

My sample consisted of Tomatio's thirty-five top growers (the reasons for this bias are explained in the methodological appendix). These growers tend to have good personal relations to the company as they generally get what they ask for. Other farmers are less privileged and can therefore be expected to give a lower score to interpersonal trust. It would have been interesting to have the response of smallholder contract growers as well, and compare it to that of larger farmers. Yet the bias in my quantitative survey does not disturb the underlying qualitative argument. Open interviews and previous research experiences (Peppelenbos, 1996) indicate that smallholder farmers also have high personal trust and low institutional trust. The reason is simple - the tomato chain features strong interpersonal trust because the distribution of resources is coupled to it. The more interpersonal trust a farmer creates, the more privileges he gets. The reverse side of this is institutional distrust - the tomato chain features a low degree of institutional trust because standards, rules and procedures are arbitrarily defined and enforced. This situation is far from uncommon, as described by the social theory on trust:

> "The less an individual can rely on the existence or the efficient functioning of formal institutions, the greater his need for protection through [interpersonal] trust relations... The more often individuals

> succeed in obtaining what they want by not going through the formal institutional channels, the greater the probability that these channels remain weak" (Galjart, 2002: 61).

In conclusion, the reason why the tomato chain participants maintain their business relations in spite of the vicious circle of distrust is that they have a high degree of interpersonal trust.

1.11. Institutional imprisonment?

The chapter has demonstrated that Tomatio and its chain partners sustain inefficient patron-client relations, because they are trapped in a vicious circle of distrust, yet kept together by strong interpersonal trust. At a logical level the argument may be balanced, but at an emotional level it still leaves us with an annoying feeling. For this kind of interaction seems too irrational to be true. If the agents chose to maintain their business interaction, then why are they unable to overcome their childish behavior? Why don't they act as rational economic actors?

The point is that Tomatio and its chain partners do act rationally. Patron-client chain management might be inefficient in itself, nonetheless, it is efficient in relation to the 'set of opportunities and constraints' that holds for tomato processing in the Central Valley of Chile (cf. North, 1990). The patron-client model of supply chain management is practiced not only by Tomatio, but spans across space and time in Chile's tomato industry. Interviews and field observations indicate that each of Tomatio's competitors is involved in the same type of patron-client interaction. Moreover, early accounts of the tomato industry reveal that in the 1970s the task division between growers and industry was similar to the one prevailing today (CORFO, 1971; Román and Morales, 1975; El Campesino, 1979). In twenty-five years of tomato growing, the task division between growers and industry has remained unchanged. In other words, from an evolutionary point of view, patron-client organization has proven the most stable and viable way to manage a tomato chain in Chile.

Supply chains in other agro-industrial sectors in Chile tend to display patron-client relations as well. It would be foolish to treat the Chilean food industry as all alike; nonetheless, it can be safely stated that where the industry works with smallholders and medium-sized producers, patron-client relations tend to prevail. This statement is supported not only by my personal experiences in diverse product sectors like sugar beet, wines and processed fruits and vegetables. It is also supported by the opinions of Chilean managers and policy-makers, and by empirical research (e.g. CEPAL, 1991; Faiguenbaum, 1992). In a study commissioned by the FAO, Schejtman asserts that in Chilean agriculture, "the relation between supplier and buyer is a patron-client type of relation with loyalties and subordinations that go beyond mere functionality" (1998: 63; my translation). In a publication by the United Nations Economic Commission for Latin-

America (CEPAL), Barría et al. argue that Chilean farmers "create strong links of dependency towards the agro-industry... In fact, they remain trapped and dependent, living under conditions fixed by the agro-industry" (1991: 466; my translation).

The earliest account of patriarchal agri-chain management I encountered is the case of a sugar beet processor in 1899, recorded by the National Congress on Industry and Agriculture:

> "This industry is Mentor and Maecenas of the farmers... It distributes written instructions... it has instructors who go into the field to direct the operations... it provides seeds, tools, machines, fertilizer, oxen, and capital... it acquired a great estate to show a model crop... We must be glad to have in our country a company knowing how to harmonize industrial and agricultural interests, and which disposes over ample resources to put that harmony into practice" (Congreso Industrial y Agrícola, 1899: 103-118; my translation).

Reading this quote, one might be misled and believe it to be a description of Chile's contemporary tomato industry. Apparently, Chilean agri-food chains were from the onset characterized by patrimonial working relations in which an omnipotent processor acts as 'Mentor and Maecenas' towards its contract growers. It is flabbergasting to see that in Chile the task division between farmers and industry has remained unchanged in more than a century of agro-industrial development. From 1899 to 2003, patron-client organization has been used as the most efficient way to set up a supply chain in Chile, both in the tomato industry and in other sectors of the food industry.

Hence, the reasons why Tomatio and its chain partners interact according to the patron-client model and fail to surmount the vicious circle of distrust are to be found beyond the immediate context of the tomato chain. The tomato chain is part-and-parcel of a wider phenomenon, namely, a tradition of patron-client management and organization which spans space and time in Chile. This tradition of patron-client organization has permeated into the rationality of Tomatio and its chain partners. They do not act on the basis of instrumental rationality - as assumed by neo-classic rational choice theory - but on the basis of patron-client rationality. Their norms, values, beliefs and preferences are shaped by the culture of clientelism. Most importantly, their perception of the world is shaped by it - patron-client organization is like the air they breath; they can hardly imagine that things might be done in a different way. In their daily functioning, the tomato chain participants perceive certain things but are blind to other things, they lock some events into their memories but instantly forget other events, they automatically chose for certain types of solutions whereas other approaches do not even cross their minds. These are the kinds of cultural biases that condemn the tomato chain participants to a patron-client model of supply chain management. The tomato chain partners - and many other Chilean firms and organizations - are imprisoned by the institutional culture of patron-client organization. Explaining and defending that hypothesis is the mission of the remainder of this dissertation.

Chapter 2 Theoretical intermezzo

2.1. Introduction

The conclusion of the previous chapter that the tomato chain participants are 'chained' by patron-client organization raises a series of fascinating questions about the nature of economic organization in Chile - a field for which the country is internationally praised. How can we explain that a 21st century agribusiness firm relates to its chain partners as a landlord to his tenant peasants some centuries ago? Why do rational economic agents in a highly competitive business context maintain a management model that generates great inefficiencies? How is it possible that patron-client organization has persisted in Chile throughout centuries of radical political, economic and social change? How well do clientelism and 'modernity' go together? How can patron-client management be enriched and better tuned to the global network society?

These lines of inquiry are not only fertile academic subject-matter, but also directly relevant to the everyday management of Chilean agribusinesses - or any other type of organization that operates in the country. They require an analytical framework that accounts for bounded rationality and institutional durability, that is applicable at micro- and macro-level, and that allows for theoretical interpretation as well as pragmatic intervention. Such framework is, in my view, best provided by the (cultural) grid-group theory as developed by Mary Douglas (1986), Christopher Hood (1998), Gerald Mars (1982), Paul Richards (2000), and others. This chapter explains what grid-group theory entails, and why it is useful for analyzing the persistence of patron-client organization in Chile.

2.2. The concept of patron-client organization

The concept of patron-client organization runs across disciplinary boundaries in social science and across boundaries of social reality. Sociologists, anthropologists, political scientists and some economists have used the concept to understand a wide variety of phenomena across space and time. For instance, the classic volume *Friends, followers and factions* edited by Schmidt et al. (1977) features a panorama of studies on patron-client organization in different guises and contexts, such as worker-employer relations in contemporary Thailand, kinship relations in rural Africa, party politics in Latin America, corruption in Southern Europe, morality and religion in Greece, and credit markets in West Africa.

Apparently, the concept of patron-client organization can refer to different things

observed 'out there' - i.e. the concept is chameleon-like. Though critics consider it a "concept for all seasons" (in Lemarchand, 1981: 8), clientelism is, in fact, defined with a fair degree of precision. It describes a specific form of social organization among actors who behave according to certain patterns. The patron-client model has four main elements. First, central is the dyadic relationship of patron and client, two parties of unequal status and power. James Scott defines this relation as:

> "...a largely instrumental friendship in which an individual of higher socioeconomic status (patron) uses his own influence and resources to provide protection or benefits, or both, for a person of lower status (client) who, for his part, reciprocates by offering general support and assistance, including personal services, to the patron" (1977b: 124-5).

Some authors distinguish a third actor, the broker, who intermediates resources not directly controlled by himself. But Scott (1977b) and Legg (1976) point out correctly that such resources may also be facilitated by the patron or the client themselves. The terms refer to roles rather than persons, and a single individual may act in all capacities. It is common indeed to observe patrons in the role of client towards more powerful patrons, or clients in the role of patron towards groups of smaller clients.

Second, the patron and the client are involved in a 'package-deal' for exchange of goods and services. The resources provided by the client are typically labor services, products and active political support, whereas the patron typically offers subsistence means, insurance, protection, brokerage and influence. The terms of trade are asymmetrical yet perceived as mutually beneficial. They obey a sense of generalized reciprocity and cannot be calibrated, for they are particularistic and individually negotiated:

> "There can be no mutual standard of value against which to judge the goods exchanged because the subjective assessment of each partner is the determinant... How many potatoes is the proper exchange for writing a letter to help a boy get into a secondary school?" (Legg, 1976: 15).

> "The content of the relationship is an exchange of services. These are of non-comparable quality. The patron provides clients with a job, credit or legal protection, whereas the client offers himself as laborer, vote-collector, informant or soldier" (Spittler, 1977; my translation).

Third, behind the interlocked transaction there is a personalized, multi-stranded relationship based on years of face-to-face, reciprocal interaction. This relationship entails feelings of trust, loyalty, and commitment:

> "The patron should display an almost parental concern for and responsiveness to the needs of his client, and the latter should display almost filial loyalty to the patron" (Landé, 1973: 105).

> "It is the client's bounden duty not only to promise loyalty and support to his patron but actively to fulfill that promise and voice it abroad. By doing so, he... adds to the name and fame of his patron and thus ensures him a species of immortality" (Kenny, 1977: 358-9).

The idea of emotional attachment is rightfully moderated by Piattoni (2001), who argues that such a notion of clientelism is based on the archetypical landlord-peasant relationship. Contemporary forms of patronage may involve rather impersonal exchange relations between corporate groups like political parties and trade unions. Yet also modern forms of patron-client organization entail *Gemeinschaft* features, as argued by Günes-Ayata (1994), who interprets the persistence of clientelism in modern society as a 'backlash' by civil society against the indifference of bureaucratic universalism:

> "The most important factor in the recurrence of clientelism is the generation of expectations and hope, the individual's feeling of being protected, of being able to depend on a 'patron'... [Patron-client engagements] search for flexible solutions oriented toward individual needs, taking private concerns into consideration and integrating everyday concerns as public issues" (1994: 22-6).

Fourth, in patron-client organization, vertical structures are strong, and horizontal structures are weak. Due to the way in which their interests are structured, horizontal cooperation is troublesome among patrons, and virtually non-existent among clients:

> "We can observe a paradoxical situation in many development countries. We see huge economic inequalities... [thus] we would expect political organizations to be built on class base, i.e. horizontally. Yet instead we find mainly vertical organizations that cut across different classes... This can only be understood by looking at the underlying patron-client relations" (Spittler, 1977; my translation).

> "The key mechanism through which the patron/employer seeks to influence the client/worker is the latter's perception of being in a relatively privileged position. Fear of jeopardizing this position is the motivating force which elicits compliance... By enhancing divisions among less powerful groups, exclusionary tactics tend to have a demobilizing effect on agrarian organization" (Hart, 1986: 190).

> "The larger a patron's clientele..., the greater his latent capacity to organize group action... This capacity to mobilize a following is crucial in the competition among patrons for regional preeminence... The high-status members furnish instrumental assistance to the low-status ones in exchange for their respect and compliance, which helps the high-status members in their competition for a dominant position in the group" (Scott, 1977a: 126).

In sum, the patron-client model describes how social, economic and political resources are exchanged under particularistic, asymmetrical terms of trade within a realm of vertical, personalized relationships tending to exclude horizontal solidarities. But the model goes beyond the level of merely dyadic relations - it involves structures that emerge by the joining of many such links. The literature distinguishes three terms to point to these structures (Scott, 1977a; Legg, 1976). The patron's immediate following - i.e. the clients directly tied to him - is referred to as a 'patron-client cluster.' A 'patron-client pyramid' is an extended cluster, broadened by non-clientelistic links like friendship, kinship and ethnicity, and by indirect clientelistic links - i.e. the clients of the clients of the patron. Finally, a 'patron-client network' is the overall pattern of patron-client

linkages in a given area, which may include horizontal alliances between patron-client pyramids. In this way, dyadic patron-client relations give rise to vertically integrated structures which may extend from local on to national level, incorporate hundreds to thousands of people, and fulfill social, economic, political and religious functions. Patron-client organization is, in other words, a viable form to organize entire societies.

But it has weaknesses as well. The Achilles' heel of patron-client organization is the excessive proliferation of vertical structures at the expense of horizontal cleavages. This design makes patron-client structures efficient at top-down command and compliance, but weak at horizontal cooperation and consultation, and antithetic to grassroots initiative and feedback. Bottom-up initiative by clients is virtually non-existent due to the patron's 'divide and rule' policies mentioned earlier, whereas cooperation among patrons is troubled by their competition over followers. As a result, patron-client networks tend to be unstable - they may dissolve or reemerge as patrons come and go, make coalitions, or get on bad terms with one another. Patron-client structures are not based on common interests or shared characteristics - they are rather glued together by particularistic interests, personalized exchange relations, and the charisma of individual leaders. Their transient nature is emphasized by the terms 'quasi-groups' and 'factional alliances' (cf. Schmidt et al., 1977). Quasi-groups denote a particular patron-client cluster or pyramid - their functioning contrasts sharply with that of 'categorical groups' (Table 2.1). Factional alliances are opportunistic coalitions between patrons, mobilized around immediate issues and short-run interests (Nathan, 1977). Factional alliances may evolve into more durable forms of organization if they succeed to overcome their inherent clash of interests and lack of durable common goals.

Table 2.1: Comparison of quasi-groups and categorical groups

	Categorical groups	**Quasi-groups**
Group configuration	Horizontally-integrated groups with shared features and durable interests	Vertically-integrated groups with shifting interests, built around a particular leader
Composition of the group	Members with relatively homogeneous characteristics	By definition it involves people of different status
Members' goals	Common goals derived from shared characteristics	Particularistic goals derived from their personal exchange relation to the leader
Corporateness of the group	The group is likely to have horizontal links among the members	Clients are commonly not linked to one another
Autonomy of the leadership	The leader must respect the collective interest as well as the procedures	The patron has wide autonomy as long as he provides for the welfare of his clients
Stability of the group	The group is rooted in the members' shared qualities	The group tends to disintegrate when the patron weakens or dies

Source: Nathan, 1977; Scott, 1977a

2.3. The origins and the persistence of patron-client organization

The explanation of why patron-client organization exists is less straightforward than the description of its features. The manifold attempts to identify determinants of clientelism have not yielded a systematic understanding of why patronage comes into existence in a particular situation and not in others, nor why it persists in particular situations and disappears in others.

Early scholars related patron-client organization to peasant communities, feudalism, colonialism and other patriarchal, pre-industrial contexts. Patron-client organization was perceived of as a transitional phenomenon, typical of 'traditional' societies, and expected to fade away with the establishment of 'modernity.' Later, it turned out this proposition was based on dossier-blindness rather than careful thought. An exclusive concern of anthropologists, the first reports on patron-client organization were all studies of non-Western contexts. As soon as other social disciplines adopted the concept and applied it to Western societies, it became evident that modern, industrial nation states are certainly not free from patron-client practices. For instance, Blockmans (1997) argues that the world-shocking affairs in Belgium in the 1990s - i.e. systematic involvement of top-level politicians in corruption, criminality, and sexual abuse of children - are rooted in the patron-client structures that underlie the Belgian political system. It may be true that the 'moral climate' of patron-client organization is typical of (semi-)peripheral areas - i.e. where the political system, markets and state bureaucracy are defective and incomplete (cf. Gellner, 1977; Mouzelis, 1985). This applies to Africa, for instance, where a patrimonial elite controls a state apparatus that fails to enforce law and order, and provide basic socio-economic functions (Van der Veen, 2002; Richards, 1996, 1999). Yet when the concept is stripped of its cultural overtone and merely seen as a relation of particularistic preferment, then it becomes clear that patron-client structures may well persist within modern institutional settings as an additional way to regulate access to power and resources (Scott, 1977a; Landé, 1983; Roniger and Günes-Ayata, 1994; Piattoni, 2001).

Other scholars associated the existence of patron-client organization to inequality, scarcity and insecurity - conditions which would induce resource-poor persons to recur to patrons as providers of protection and livelihood needs. “Where subsistence needs are paramount and physical security uncertain, a modicum of protection and insurance can often be gained only by dependency on a superior who undertakes personally to provide for his clients” (Scott, 1977a: 102). Granovetter (1993) and Legg (1976) correctly question this argument, observing that scarcity and insecurity lie in the eye of the observer and may be resolved in a variety of ways. In response to the latter, it might be argued that patron-client relations flourish where alternatives are absent - i.e. where kinship, markets and/or state institutions fail to provide livelihood security. But also this proposition is problematic, as none of these alternatives excludes patron-client relations. Kinship seem complementary rather than alternative to clientelism - for it is difficult to

imagine a society where scarcity and insecurity are exclusively met through kinship, and even more difficult to imagine one without kinship at all. Nor do markets necessarily eliminate clientage structures. In some contexts patron-client organization has disappeared under the development of industrial capitalism, but in other contexts commoditification enhanced the proliferation of clientage networks, as Scott (1977a) records, for instance, in South-East Asia. Patronage relations cannot "be expected to wither away once commercialization and market rationality take hold. Instead, they are often crucial elements in strategies to maintain and reinforce positions of economic dominance over the longer run" (Hart, 1986: 190).

Nor did the establishment of formal state institutions eliminate clientelism. On the contrary, constitutional democracy and extended state bureaucracies often enhanced the emergence of nation-wide patron-client networks. "In much of Europe, as in the Third World, electoral systems have promoted the growth of new classes of public patrons and brokers [who integrate] local clienteles into larger vote-producing coalitions" (Scott, 1977b: 493; see also Roniger and Günes-Ayata, 1994; Mouzelis, 1985). Though bureaucratic universalism is in theory the antipode of clientelistic particularism, in practice the two principles coexist and intermingle. This has been called the 'addendum' function of patron-client organization (Landé, 1983). Relying on the concept of implicit contracts, the addendum argument asserts that constitutional forms of governance do not provide for all the needs of a community, and that dyadic relations constitute an additional framework for meeting individual needs by providing tailor-made solutions and affect-laden relationships. From this perspective, clientage networks are as crucial in modern institutions as in older ones, "the main difference is simply that such networks are more elaborately disguised by formal facades" (Scott, 1977a: 124).

All in all, the literature did identify a set of functions of clientelism, but has failed to provide systematic insight into its appearance (or not) across space and time, and its reproduction (or not) under changing contextual circumstances. The only explanation which could provide such systematic insight must unfortunately be dismissed as a circular argument. In this argument, the exchange of resources is taken as the 'analytical core' of patron-client relations (cf. Lemarchand, 1981; Piattoni, 2001). The fundamental difference, then, between clientelistic and non-clientelistic contexts is the way in which access to resources is organized. In patron-client organizations, access to resources is personalistic, because the channel of access is dyadic, and the terms of regulation are particularistic. By contrast, in non-clientelistic situations, access to resources is regulated along formal, uniform, impersonal terms and procedures:

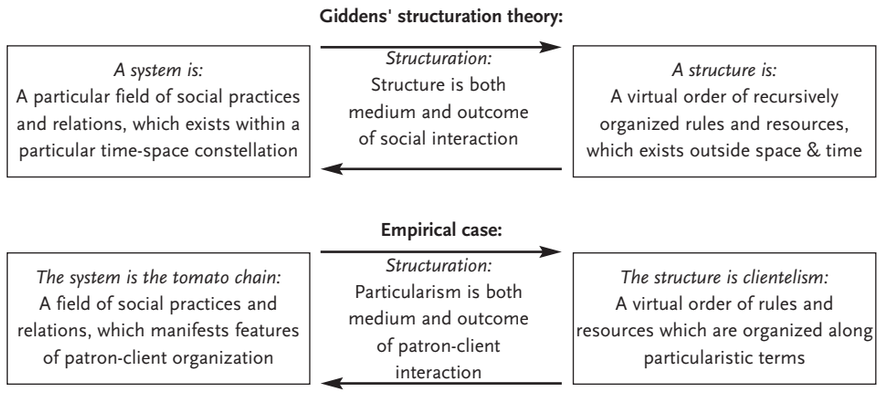
> "Where consensus has produced an institutionalized means of indirect exchange - one that is legally based, uniformly enforced, and effective - impersonal contractual arrangements tend to usurp the place of personal reciprocity. A patron-client dyad, by contrast, is a personal security mechanism and is resorted to when personal security is frequently in jeopardy and when impersonal social controls are unreliable" (Scott, 1977a: 133).

In other words, patron-client structures are opposed to standardization and universalism. For this reason, early scholars had expected patron-client relations to whither away under the establishment of impersonal institutions, such as the free market and constitutional democracy. Later studies showed, however, that also these institutions may accommodate non-standardized forms of resource allocation - like in Tomatio's supply chain - and that patron-client organization may therefore well persist in modern contexts. The 'access to resources approach' adequately accounts for the chameleon-like nature of clientelism, but is rendered invalid by the fact that particularism is both cause and effect of patron-client organization. The argument that particularistic relations are strong when formalistic solutions are weak is clearly tautological.

The problem that led us to this circular causation is a wrong question. The question why patron-client organization comes into existence in a particular situation is wrong because clientelism does not exist 'out there.' To think that clientelism might exist in a particular situation is a confusion of conceptual and social/material reality (cf. Wittgenstein in Monk, 1990). Patron-client organization forms no part of social/material reality - it exists as a concept only. It is a theory developed by social scientists to make sense of a variety of practices observed around the world. It is a model, an abstraction, a set of propositions about the behavior and interaction of patrons and clients. Suppose a team of social scientists were commissioned to study the tomato chain in the Central Valley of Chile. After a rapid appraisal of the situation, the team would conclude, "This is a form of clientelism." But then the cleverest asks, "Excuse me, but what is exactly clientelism here?" This nasty question triggers off a fierce theoretical debate, and after a while Giddins' structuration theory gets accepted as the most adequate model to analyze social interaction. So then the team proudly concludes, "Clientelism is the virtual order of rules and resources that is both medium and outcome of the tomato supply chain system" (Figure 2.1).

Unfortunately, instead of a real thing, the team grasped a 'virtual order.' Assuming other theories would arrive at similar or poorer results, my suggestion is to accept that patron-client organization is conceptual and non-existent out there. Instead of saying, "This is clientelism," we should say, "This situation exhibits features of clientelism." Patron-client organization is nothing but a model, a conceptual construct, for making sense of social/material reality. Freud's concept of the 'unconsciousness' provides a useful comparison. Though humans sense unconsciousness, e.g. when dreaming, unconsciousness does not exist as a real thing. For any real thing that is defined as part of the unconsciousness would by that very act of definition cease to be unconscious. Therefore, while unconsciousness may be experienced as a reality 'in there' - a reality as real as patron-client organization - it exists only as a conceptual construct through which we make sense of certain aspects of psychic life.

Figure 2.1: A vain attempt to grasp clientelism in empirical reality



Source: Elaborated by the author on the basis of Munters et al. (1991)

Summed up in a Wittgensteinian one-liner, patron-client organization is not material but grammatical discovery. By discovering clientelism in a particular situation, we do not discover a phenomenon out there, but a model, a grammar, useful for making sense of that situation. As part of conceptual reality, patron-client organization is not subjected to the laws of social/material reality. It may therefore take diverse shapes, such as supply chain management in 21st century Chile, or kinship relations in tribal groups in South-East Asia. Better put, for the concept to be meaningful it should embody a range of different social/material phenomena. For the benefit of social theory is that it enables us to understand a specific phenomenon in relation to others - i.e. the meaning of social theory is to establish 'connections' between phenomena which help to develop a better understanding of these phenomena. The most beneficial way to use patron-client grammar is, in my view, the neo-Durkheimian approach inspired by grid-group theory. The next sections explain what this theory entails, how it applies to patron-client organization, and why and how it is used in this dissertation.

2.4. An account of grid-group theory

Grid-group theory (GGT) is a theory for analyzing and comparing systems of social interaction. It is a method for comparing organizations, communities, institutions, and other types of social groups, large or small (Gross and Rayner, 1985). It emerged

> "... in the 1970s with the need of anthropologists to classify the myriad cultures that had been recorded since... the 1920s. Unless any one culture can be meaningfully compared to another there can be no [social] science... Various attempts to construct classification offering synthesis and comparison were attempted but were sequentially doomed. They each breached the first requirements of valid classifications: that categories must be both exhaustive and exclusive. Mary Douglas' cultural theory... overcame these difficulties" (Mars, 2000: 2).

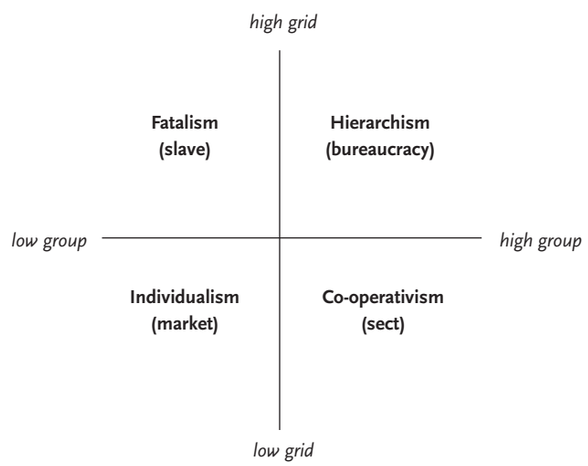
GGT developed from a method into true theory as it proved capable of filling up a fundamental gap in social science, namely, the inadequate explanation of solidarity. Social theory fails to explain how there can be a society - i.e. how lots of individual behavior sums up into order (cf. Douglas, 1992). The most elaborate accounts of social interaction are provided by individualist approaches like rational choice theory, institutional economics (e.g. North, 1990) and human agency sociology (e.g. Long, 1984). But the axiom that social behavior is motivated by self-regarding preferences runs into serious difficulties when cultural variety is to be explained. Even when the notion of self-interest is extended to include sentiments like social approval, individualist approaches fall short in accounting for the diversity in patterns of social interaction across the globe. Recourse is then made to vague cultural or psychological notions that tend to produce tautological explanations. The acceptance of authority, for instance, is explained by a deferential culture, and the absence of cooperation by individualism. Culture is thus "an extra resource to be wheeled in after other explanations are defeated. It is the flexible, powerful residual factor where other reason fails... It is the weakness at the core of the so-called social sciences" (Douglas, 1992: 167).

GGT takes a completely different stand, putting culture instead of the individual at the center of analysis - "everything human beings do or want is culturally biased" (Mamadouh, 1999b: 396). GGT builds upon the Durkheimian notion that individual thought has a social origin. "Classifications, logical operations, and guiding metaphors are given to the individual by society. Above all, the sense of a priori rightness of some ideas and the nonsensicality of others are handed out as part of the social environment" (Douglas, 1986: 10). This Durkheimian notion supports the central proposition of GGT that there is a consistent interrelation between culture and social organization. Social groups generate their own view of the world, a thought style, a cultural bias which sustains the reproduction of the group. Without an institutional thought style, social organization is unviable. Without a shared culture, organizations are incapable of cohering individuals, generating loyalty and surviving over time. For organizations to be viable there needs to be a mutually supportive relationship between the structure of the organization and a set of values and beliefs that mobilizes the commitment of the members to the organization. The aim of GGT analysis is to elucidate this consistent relationship between the structure of social organizations and the patterns of ideas and behavior they sustain. GGT enables us to analyze

> "cultural values and beliefs as carefully maintained regulators of social organization..., [and] to see how symbols are invoked by people in order to convince and coerce each other to behave in a certain way, as well as to justify their own actions... It shows how culture works as a social control mechanism and a means of accounting for actions" (Gross and Rayner, 1985: 17-18).

The second central proposition of GGT is that the number of viable combinations of social organization and cultural bias is limited. "Out of the infinite number of distinct forms that human society can take, not all attempted combinations will be viable... Culture itself is constrained. It cannot make any number of combinations or permutations" (Douglas, 1992: 135-6). At a logical level, so argues GGT, there are only four basic situations where culture and organization mutually support each other and thus sustain a viable 'way of life.' These four prototypical ways of life are revealed by assessing two fundamental dimensions of social life - grid and group - and combining them into a matrix scheme (Figure 2.2).

Figure 2.2: Four cultural 'ways of life'



The dimension of group stands for the extent to which individual behavior is limited by the membership of a social group. 'Group' is low when membership does not exert a dominating influence on the individual, such as in Western societies, and high when the group offers a total life-support system, such as in army barracks, homes for the aged and other 'total institutions' (cf. Goffman, 1984). The dimension of grid stands for the extent to which individual behavior is limited by social rules and classifications. 'Grid' is low when life chances are not determined by pre-set classifications, again such as in Western societies, and high when roles are ascribed, such as the caste societies of India (Mars, 2000). Together, the two dimensions grasp the essence of social life by answering the questions, "who am I?," and, "how should I behave?" (Wildavsky, 1987, cited in Mamadouh, 1999b). They are derived from Durkheim's classic work *Suicide*, in which he developed the axes of 'social integration' and 'social regulation' to account for different types of suicide (Perri 6, 1990).

Each of the four resulting ways of life consists of a specific style of group interaction and a specific cultural bias. Each organizational prototype embodies a package of values, beliefs, preferences, and attitudes. The ways of life are, so to speak, 'structures with attitude' (Hood, 1998). They can be analyzed on a threefold level - i.e. organizational, behavioral and cognitive.

Hierarchism, the high grid-high group pole, is a socially cohesive, rule-bound organizational context based on central authority and fixed rules. Driving attitudes are compliance and system maintenance. The individual has a strong sense of belonging to the organization, and accepts its rules as necessary and legitimate. The archetype of this form of solidarity is the bureaucracy (Rayner, 1986; Mamadouh, 1999b).

Cooperativism, the low grid-high group pole, is a socially cohesive organizational context based on consensus and participation, with strongly defined group boundaries *vis-à-vis* the outside world. Driving attitudes are togetherness and equality. The individual has a strong sense of belonging to the group and feels responsible for the other group members. The archetype of this form of organization is the sect (ibid.).

Individualism, the low grid-low group pole, is an atomized, egocentric, network-type of organization based on competition, negotiation and exchange. Rules and boundaries are provisional and subject to negotiation. The driving attitudes are individual success and expansion. The individual is *homo economicus* - his behavior is motivated by self-regarding interests. Here, the archetype is the free market (ibid.).

Fatalism, the high grid-low group pole, is a low co-operation, rule-bound context in which individuals are controlled, dominated and fragmented by the outside world. Fatalism is associated with conditions "in which co-operation is rejected, distrust widespread, and apathy reigns" (Hood, 1998: 9). The driving value is survival. The individual is stigmatized, isolated, excluded. Here, the archetype is the slave.

Any real-life situation accommodates a combination of hierarchism, individualism, cooperativism and fatalism - though not in equal proportions (Thompson et al., 1990). Such a combination in a given situation is what I propose to call 'institutionality.' This concept emphasizes - better than the term 'way of life' - that social organization entails two levels, i.e. structure and attitude. Institutionality is, then, the particular configuration of different ways of life in a given situation, analyzable at organizational, behavioral, and cognitive level.

Some scholars regard GGT as a fully explanatory theory and have developed a series of propositions about how the four ways of life exist in relation to each other (Thompson et al., 1990, 1999). The 'requisite variety condition,' for instance, holds that each way of life needs the others to correct itself for its specific blind spots. Such propositions make sense only at conceptual level. The use of GGT as a cybernetic model is in my view nonsensical, because the 'ways of life' are concepts, and therefore do not exist 'out there.' They are not material but grammatical discoveries. Their only relation to reality is that their features can be observed 'out there' in incomplete, mutual combinations. The contribution of GGT lies in its use as a heuristic device for filtering information, and

making quick and sharp sense of a situation. The ways of life are like a palette of elementary colors with which a skilled practitioner can paint a reliable impression of reality, anywhere around the world. The next section takes up this palette of elementary colors to make a painting of 'patron-client institutionality.'

2.5. The *hacienda* as 'patron-client institutionality'

> "A clientelistic political culture arises when we have fatalism combined with an alliance of hierarchy and individualism... Its elites are organized into networks that compete with one another to incorporate the fatalists... Such a political culture can be stable over quite long periods" (Mamadouh, 1999a: 146).

This section analyzes the archetype of patron-client organization - i.e. landlord-peasant relations on the *hacienda* - in order to illustrate how this dissertation will apply GGT to analyze the persistence of patron-client organization in Chile. The *hacienda* was an economic system that generated wealth and power for its owner - the landlord - by providing total life-support to a community of tenant farming households in exchange for their complete disposition and loyalty. Yet besides an economy, the *hacienda* was also a political-administrative unit, a military organization, a religious order, and a social community (cf. McBride, 1970; Bauer, 1975; Kay, 1977). The *hacienda* was a 'total institution' (as in Goffman, 1984) and, literally, a state within the state. "There were tenant families who had lived and worked on the same *hacienda* for generations, and who perceived of the hacienda as their nation" (Kay, 1980: 769). These tenants - or *inquilinos* as they were called in Chile - received

> "...a plot of land, a dwelling, and food allotments in exchange for labor services. The landowners organized the religious *fiestas*, the amusements and the 'civil jurisdiction' on their estates, which usually had a chapel where the *patrón*, the *inquilinos* and their families heard Mass, and the resident priest who gamed and supped with the landowner could be counted on to inveigh against disloyalty and immorality from the pulpit. The apparatus of control and violence was regulated by the landowners, and alternative sources of information and voluntary associations were forbidden" (Bauer, 1975: 166).

The *hacienda* was organized in a hierarchist way (high grid - high group). The landlord stood at the apex of a four-layered pyramid which diverged from the priest and the general administrator towards specialized personnel, tenant farmers and, at the bottom, wage laborers or *peones* (Bengoa, 1990; Kay, 1980). An individual could ascend the pyramid of power by showing loyalty, respect, and commitment. By inculcating good relations with upper layers, the peon could obtain the right of *inquilino*, accumulate resources, develop his own micro-enterprise within the *hacienda*, and foster a career in administrative functions:

> "There was a pyramid of command, control and organization. But one could ascend onto this pyramid. That was the great integrative capacity of the *hacienda*. Therein lies the most profound explanation for the stability of the hacienda in Chile" (Bengoa, 1990: 165-6).

Rather than a Western-style bureaucracy of functional relations and standardized rules, the *hacienda* was a patrimonial hierarchy with one-man, patriarchal leadership, multi-stranded relationships, and particularistic procedures. The central administration steered and controlled through dyadic lines of command and compliance. The landlord was not only leader, but also judge, guardian, guide and patriarch. Besides ruling life within the *hacienda*, he mediated all links to the outside world. His absolutistic leadership was legitimated by the 'culture of paternalism' (cf. Genovese, 1972) - i.e. by the belief that the landlord's natural superiority gave him the 'sacred duty' to rule over, provide for, and bring progress to the people. In this patriarchal worldview, inequality is a fact of life defined by God, who is Himself "the final patron and the ultimate source of all patronage" (Kenny, 1977: 356). God commands that someone has to be first, and that the first shall be last. "The chief is servant of his people [as] the pope is the servant of the servants of God" (Douglas, 1992: 143). The 'burden' to provide for protection and leadership had to be carried by the landlords. Their paternalistic leadership style is well described by José Medina:

> "From his first son to his last slave, the landlord exercised his authority, oppressing and protecting at the same time... [His leadership entailed] protection and coercion, arbitrariness and benevolence, loyalty and resentment, violence and charity... [He was] undaunted, with contempt for death, untouchable, and lonely *vis-à-vis* the exigencies of an unconditional duty... [He displayed] fatal religiosity with catholic piety, noble-mindedness, elegance... [and] above all, compliance with his mandate of *noblesse oblige*" (Medina, 1963: 105-106; my translation).

Subjected to such benevolent leadership, the population on the *hacienda* had a fatalistic way of life (high grid - low group). The tenant farmers and peons depended for their subsistence on the generosity of their master. His will was their command. The life of a typical *inquilino* is vividly described by Jorge McBride:

> "He was born on the estate. He had never lived in another place and seldomly left the estate for more than a few days. When seven years old, he started working as a servant in the house of the landlord. When ten years old, he became shepherd and started to pass his entire days in the nearby hills. He learned to be a good horseman and to predict the weather, and came to know all the small paths in the valleys, the best pastures, and the use of every herb and plant. With that, his education was complete. As a child, he had never gone to school. He was illiterate, but not ignorant. He was well informed of everything within his immediate surroundings, though he did not know much about the world outside the estate. His experience with public affairs consisted of two occasions in which he had gone to the city to vote. He had had to learn how to write his name so that he could sign the ballot in the place that had been indicated to him. The life of his father, his grandfather and previous generations had been the same. No one had ever known any different condition than that of a hereditary *inquilino*" (1970: 28; my translation).

Inside the *hacienda* there was law, order and protection; outside there was warfare and lawlessness. This helps explain the emergent solidarity of the tenant farmers with their landlord. For fear of loosing their privileged position on the *hacienda* and becoming part of that "large floating population of peons and vagabonds which roamed up and down the Central Valley in search of subsistence" (Collier and Sater, 1996: 12), the tenants were hesitant to engage in collective resistance against their master. Submission was the most rewarding livelihood strategy, as promotion and privileges were linked to the display of respect and loyalty. The tenant families were committed to their landlord, whom they were eager to see as 'the best master in the world' (cf. Genovese, 1972) and defended the *hacienda* against threats from outside. Therefore, besides some eruptions of blind, anarchistic revolt, the Chilean countryside has enjoyed extraordinary political stability, due to which the *hacienda* system lasted well into the 20th century (Kay and Silva, 1992).

The resignation of the tenants was legitimized by a worldview that inequality is part and parcel of the Creation. As far as collective memory recalled, the masses had always lived at the mercy of an exorbitantly rich elite. Ever since the colonization of Chile in 1541, the *hacienda* had been the pillar of the nation - the crown, church and state had all governed through it. Around 1900, the *hacienda* still accommodated almost one-third of Chile's population and three-quarters of total arable land (Kay, 1980). "The entire life of the nation was defined in relation to land. The owners of land commanded, and those who did not possess land had to obey... Abilities, education, success, and accumulation of wealth were all less important than having been born in a landowning family. The privilege of the cradle was the decisive factor" (McBride, 1970: 31; my translation). Rather than resisting this order - no matter how unjust it was - the *hacienda* population tended to focus its energies on making its landlord 'the best master.'

Whereas the tenants can thus be typified as 'isolated individualists' competing over preference from above, the landlords should be seen as 'competitive individualists' - i.e. as a low grid-low group way of life. While controlling the regulating institutions, they competed and negotiated with one another over followers and political power. Cooperation among Chile's landed elite was confined to factional alliances built around charismatic leaders. In the period that the landlords dominated Chilean politics, the parliament was occupied by loose associations of notables rather than well-established parties with a program and a following (Lomnitz and Melnick, 2000). Chile's polity featured a classic pillared model with deals and compromises at the top - usually made in secret salons and country houses - and strongly polarizing rhetoric for the base. Only after having lost its hegemony, the landed elite developed more durable forms of group integration, as it was forced to compete against new political patrons that had emerged under Chile's urbanization and industrialization. It was only then that the landowners' society - the *Sociedad Nacional de Agricultura* (SNA), Chile's oldest interest-based association - developed into a solid organization that effectively promoted collective, non-particularistic interests (Carrière, 1975).

Hence, not only among the masses within the *hacienda*, but also at the level of their masters, the emergence of horizontal solidarity was hampered by the vertical orientation of patron-client cleavages. Nonetheless, though weakly represented, the cooperativist way of life is manifest in patron-client institutionality. At the top, where factionalism is the name of the game, groups such as freemasonry sodalities flourished among the elite. These sodalities were hierarchically organized, but they did cut across the boundaries of patron-client pyramids and thereby provide a basis for horizontal cleavages. Later, these cleavages developed into more stable forms of cooperation among the elite - e.g. the Radical party that played a key political role in the early 20th century had its roots in freemasonry sodalities (Lomnitz and Melnick, 2000). The masses also developed a form of horizontal solidarity - i.e. a popular culture that taught them to love and value each other in their common submission to repression and misery. Popular religiosity freed them from the daily constraints of patrimonial rule - though it also legitimated such rule by reproducing its assumption of God as the ultimate source of all patronage. Invoking the help of patron saints - most notably the Virgin of Carmen - the rural population had "access to a world of values without mediation by the landlord" (Larraín, 2002: 156; my translation). Popular culture thus developed as "the project of an alternative society, based on the simple principle of humanization" (Salazar, 1991: 34; my translation). But in a web of paternalistic relationships, communitarian solidarity and moral resistance tended not to become an effective weapon of liberation. In the exceptional cases where mass revolt did arise, brutal repression was the answer of the regime (Véliz, 1980; 1994; Kay and Silva, 1992).

This analysis of the *hacienda* system demonstrates that 'patron-client institutionality' accommodates a coalition of clientelistic fatalism and paternalistic hierarchism in which individualism prevails over cooperativism. The masses are 'divided and ruled,' hence, representative of fatalism. The elites are at the head of vertically-integrated total institutions, hence, representative of hierarchism. The individualist way of life is present as the competition among patrons over followers and that among clients over privileges. This rivalry within patron-client systems allows for dynamics and room for individual choice, thereby distinguishing it from authoritarian systems like slavery (Mamadouh, 1999a; see Genovese, 1972, for an analysis of slavery as an extreme form of patronage). Finally, due to the vertical orientation of patron-client dyads, the cooperativist way of life is weakly represented. Patriarchal leadership uses particularism as basic principle of law and order, and is therefore antithetic to egalitarian approaches, in which everybody is equal before God. In this way, the four cultural ways of life sum up into 'patron-client institutionality' (Table 2.2). Viable social systems commonly accommodate elements of all four cultural biases, though not in equal proportions (Thompson et al., 1990). In the case of patron-client institutionality, fatalism and hierarchism are dominant.

Table 2.2: Patron-client organization as 'institutionality'

	Fatalism	Hierarchism	Individualism	Cooperativism
Presence	Dominant	Dominant	Moderately represented	Weakly represented
Represented by...	Clients (the masses)	Patrons (the elite)	Rivalry over patrons and over clients	Underclass culture and elite sodalities
Manifestation as structure	A divide and rule regime	Centralist authority providing total life-services	Factional alliances and quasi-groups	Informal horizontal links across patron-client pyramids
Manifestation as behavior	Bootlicking, petty pilferage, and occasionally blind revolt	Paternalistic leadership using stick and carrot	Horizontal rivalry and vertical reciprocity	Distrust of formal institutions
Manifestation as cultural bias	"Obey as you are told and get what is within your reach, but don't overdo it"	"Strong authority is necessary to educate and bring progress to the people"	"Maximize your short-run advantage; assume that others will do likewise"	"Trust only intimate friends. Make sure you have friends at the right places"

2.6. The proposition of clientelism as 'Chilean institutionality'

This section explains why and how the concept of 'patron-client institutionality' is used in the work that follows. My reasons for choosing grid-group theory - at first sight an over-academic approach - for the analysis of patron-client organization in Chile are real-life issues felt 'on the ground.' Sojourning in the ivory towers of Wageningen University, I had resisted my professor's undaunted promotion of GGT, resenting its radical division of the world into four categories. But after finishing a first year of fieldwork, I was astonished by the discovery of patron-client practices in the tomato chain and expected to provide *Tomatio* with interpretation and advice. I was surprised to find in GGT the tool I needed for making sense of the situation and for designing intervention strategies. GGT enabled me to understand the two central puzzles posed by the tomato chain - i.e. institutional durability and bounded rationality - because it converted the concept of clientelism from mere 'structure' into 'structure with attitude.' Revealing the self-sustaining capacities of institutions, GGT enabled me to understand how a 16th century institution persisted in a 21st century export chain. Likewise, by showing how institutional thought styles may act as a lag on the perception of what is possible, GGT enabled me to understand why the tomato chain partners maintained patron-client relations despite clearly visible inefficiencies.

Since that moment, my research into the development of Chilean agribusiness - as well as my consultancy activities in that field - became anchored on a GGT analysis of patron-client organization in Chile. I set myself three basic tasks. First, to describe the full dimensions of patron-client organization in Chile - i.e. its existence across space and time. I traced clientelism down to its original roots, examined how it persisted in time, and identified its presence in contemporary Chile. GGT greatly facilitated this task by increasing the number of variables that I could use to detect to the existence of patron-client organization. My tracing and search apparatus no longer included only the organizational features of clientelism, as defined in the relevant literature, but also its cultural biases - i.e. the values and beliefs associated with hierarchism and fatalism. The second task was to try and explain clientelism - i.e. to analyze why the Chilean people reproduce patron-client organization as they modernize their society. GGT facilitated this task by conceptualizing how organizational structures are sustained by cultural biases. Third, I examined the scope for 'improvement' of patron-client organization. Together with local firms, cooperatives and agencies, we explored the viability of more horizontal approaches to management and organization. Here, GGT provided the insight that organizational and cognitive change must go hand in hand.

A reflection of these research and consultancy experiences, this dissertation explores management and organization in Chile through the concept of 'patron-client institutionality'. It invites the reader to adopt this concept, enter into a conceptual reality, and discover 'connections' which are - in my view - meaningful, relevant and innovative interpretations of Chilean organizational life. These connections build up the central proposition of dissertation - that patron-client institutionality is a good approach for understanding and improving management and organization in Chile. It will prove useful for tackling real-life problems in Tomatio's supply chain and other business areas, such as peasant cooperatives and shop floor management. But it will also prove helpful for making sense of Chilean society in a wider sense - providing a refreshing look upon the development of Chile's political economy from colonial to present-day times. Finally, it will prove capable of understanding Chilean culture - it will synthesize the centuries-old national debate on the 'Chilean idiosyncrasy,' and demonstrate that the latter is not a fixed fact given by God or Nature but a cultural bias related to the persistence of patron-client organization.

The proposition does not proclaim patron-client relations to be omni-present in Chile - surely many sectors in Chilean society are organized in a different way. Empirical reality is highly heterogeneous, inconsistent, and subject to multiple perspectives (Long, 1989). Hence it would be theoretically incorrect to interpret patron-client organization as the essential feature of a 'Chilean way of doing.' This dissertation holds instead that patron-client organization is essential grammar for making sense of the Chilean way of doing. In other words, the proposition is about conceptual reality, not about social/material reality. It proposes patron-client institutionality as a heuristic tool for understanding aspects of Chilean reality, thus not as a cybernetic model as in Thompson et al. (1990). Neither does it present patron-client institutionality as a 'virtual order' in line with Giddens' way of thinking (Munters et al., 1991), nor as a 'society's rules of the game' as

in North's institutional approach (1990).

The proposition is methodologically based on 'aspect-seeing' (cf. Wittgenstein in Monk, 1990) - it highlights patron-client aspects of Chilean reality and neglects other aspects. For instance, while analyzing Chile's political history, we will highlight its patriarchal aspects, though from a different angle we might conclude it has always been highly democratic. Some may regard 'aspect-seeing' as a self-fulfilling prophecy. But the epistemological justification is that explanations are always hypotheses - no matter how well developed, they remain partial and tentative. In contrast to explanations, knowledge is purely descriptive. Knowledge describes immediate experiences of reality, and is therefore connected to specific contexts. Scientists, however, are interested in developing explanations, which - by definition - go beyond the context of immediate experience. Explanations propose 'connections' between contexts; they interpret one context in relation to another through the formulation of propositions. Propositions are part of conceptual reality - i.e. they need not be 'real' in a material sense. The criterion for adopting or rejecting propositions is simply whether they are 'true' - i.e. whether they interpret reality in a meaningful way, allowing for understanding, forecasting and/or intervention (ibid.).

If we were to stay in the safe grounds of knowledge, we would analyze the tomato chain and simply conclude, "The tomato chain is like this, this and that." However, if we aim to explain why the tomato chain is the way it is, then we assert, "The tomato chain is clientelistic." Through this statement we enter into conceptual reality and start discovering connections between the tomato chain and other contexts of empirical experience. This dissertation connects Tomatio's patron-client model of supply chain management to, amongst others, the Hispanic model of colonial administration in 16th century Chile. This connection between two seemingly unrelated contexts - 'unreal' but 'true' even for a skeptic - is the subject-matter of this dissertation. The proposition of this dissertation connects the following five contexts:

1. Patron-client management in Tomatio's supply chain;
2. The evolution of Chile's political economy from colonial to present-day times;
3. The development of Chile's agriculture and agribusiness;
4. Contemporary problems of supply chain management, peasant organization and shop floor management;
5. The 'Chilean way of being,' as Chileans debate about it.

The added value of this approach will appear from the next chapters and be evaluated in the Epilogue. For the moment, we are theoretically well prepared to tackle the questions that arose from the discovery of patron-client relations in Tomatio's supply chain. We are well prepared to explore the historical, spatial and cultural dimensions of patron-client organization in Chile.

Chapter 3 The history of clientelism in Chile (1540 - 2005)

3.1. Introduction

This chapter analyzes Chile's development from colonial to contemporary times. The analysis will demonstrate that 'patron-client institutionality' has been manifest in Chile throughout four-and-a-half centuries of development, change and revolution.

Introduced by the Spanish colonizers as a basic structure of Chile's first nation-wide regime, patron-client organization has evolved as a Chilean prototype for social coordination. Nowhere was clientelism stronger than in the countryside, well into the 1960s the unchallenged domain of the *hacienda* system. From this foundation, patron-client institutionality was woven into Chile's national institutions as landed interests dominated the political economy. The political system featured patriarchal presidents, factional parliaments, a strong central state, and a dependent civil society. The economy manifested oppression of labor, strong concentration of wealth, and privileged access for business elites to public decision-making. Industrial workers were excluded from economic well-being and political participation until the 1930s, and the rural population - half of all Chileans - until the 1960s. Chile was thus, in theory, a breeding ground for disquiet, revolt and revolution. But in practice, the patron-client coalition of hierarchism and fatalism brought Chile unique political stability, unequaled by any other country in Latin America.

In the 1960s, when the predominance of the *hacienda* was no longer reconcilable with growth of the national economy, Chile's tradition of political stability was violated by three opposed revolutionary regimes. Presidents Eduardo Frei, Salvador Allende and Augusto Pinochet all sought structurally to transform Chile's patriarchal institutionality. Frei did so by integrating the poor into the patronage pyramid of the social welfare state, whereas Allende and Pinochet each chose to promote an alternative mode of solidarity - socialist egalitarianism and neo-liberal individualism, respectively. Despite a radical transformation of the political economy, patron-client institutionality remains manifest in contemporary Chile - particularly in the countryside, but also in national politics, public administration, civil society and private enterprise. Modern patronage is diffuse and incomparable to what it was before on the *hacienda* or under the social welfare state. Yet the institutional culture of paternalism continues to shape the working of Chile's free-market democracy. Chilean 'modernity' is still strongly hierarchical, personalistic and fatalistic - this chapter and the next one explore why.

3.2. Colonial Chile (1540 - 1818)

The Spaniards colonized Chile hoping to find the same wealth they had found in Peru and Mexico. But they encountered instead small semi-sedentary tribes that "were proto-agricultural, living together in rather loosely organized, dispersed communities... They were not concentrated in villages, still less in cities, and had none of the treasures which so excited the plundering instincts of the soldiers" (Collier and Sater, 1996: 4). Only in a few valleys had the indigenous peoples developed permanent settlements and irrigation-based agricultural systems (McBride, 1970). Chile was not only poor, but also remote and unsafe. Natural barriers isolated the colony from the rest of the empire - the Atacama desert to the north, the Andes mountains to the east, and the Pacific Ocean to the west. The southern border was drawn with blood by the Mapuches, the only Amerindian people never to have been colonized by Europeans.

Chile became, therefore, a peripheral colony. The Spanish empire concentrated its authority in areas where it could build upon old administrative structures - in Mexico, Peru, Guatemala and Columbia. The peripheral areas surrounded these nuclei, among which was Chile, displaying low population density, little economic activity and weak administration (Slicher van Bath, 1978). In the north of Chile there was gold mining - "the only industry to speak of in colonial Chile" (Collier and Sater, 1996: 15) - but this was a marginal activity operated by small enterprises using simple technologies. Chile's commercial opportunities were restricted not only by the smallness of the domestic market, but also by the centralistic Spanish market regime. Madrid regulated trade flows across the empire so that businesses in the colonies would not compete with firms in the fatherland (Montero, 1997). The mercantilist economy was part of the Hispanic baroque model of society, in which a hierarchical order descended from God via King on to the people. The affairs of state, church and business were indissolubly intermingled into a centralized patriarchal system divinely sanctioned from above and bolstered by the patrilineal family from below. The King was the royal father of a hierarchically structured family, with every member of society occupying a place within it that was fixed by God (Goldwert, 1980; Véliz, 1994; Larraín, 1999).

But the practice of colonization was less harmonious than God and King may have intended it to be. Cut off from royal authority and forced to support themselves in a marginal colony, Chile's conquerors began to divide the people in *encomiendas*. The *encomienda* was the crown's reward for the military service by the conquerors. With the obligation to Christianize the Indians, the crown 'commended' the care of groups of natives for, say, two or three generations, to selected Spaniards and their heirs (Loveman, 1988). The rule that the Indians remained free people, not to be enslaved, provided incentives to extract as quickly as possible whatever profits could be made from their labor. In the Chilean economy of that time, profits were to be found in agriculture, particularly in wheat growing and extensive ranching. This set in motion

> "...one of the fundamental processes of Chilean history: the formation of great estates ruled by a land-owning elite and worked by a semi-servile rural population. This theme lies at the heart of the growth of Chilean culture and nationality" (Collier and Sater, 1996: 7).

Through the *encomienda*, land gifts, forced marriages and other semi-legal means, the colonizers instituted the *hacienda* as the most enduring Chilean institution. The workers on the *hacienda* were not merely 'commended' natives. Four-fifths of the native population had died of Old World diseases and the remainder was interbred with Spanish blood, making *mestizos* the dominant component of the Chilean population. Due to these demographic trends, the most important method for mobilizing labor on the estates became the *arriendos*, in which landowners allowed poor mestizo families to settle as renters, in return for services, such as watching the herds and guarding against rustlers (Loveman, 1988). These short-term agreements gradually hardened into more permanent arrangements in which the renters, in return for a little plot of land and other necessities, supplied labor all year round. They came to form a distinctive rural class, known as *inquilinos* (McBride, 1970; Collier and Sater, 1996).

The *hacienda* became the central pillar of colonial rule. As the new townships did not amount to much, the *hacienda* was the natural unit in which crown and church exercised their powers (Medina, 1963). Outside the *hacienda* there was warfare, banditry and lawlessness; inside there was law, order and protection. The *hacienda* developed into a 'total institution' (Goffman, 1984) - all aspects of life were carried out under its roof. The *hacienda*'s economic functions became indissolubly linked with legal authority, social community, military protection and religious morality. From this all-embracing nature of the *hacienda* emerged a 'solidarity' between the *hacienda* population and their landlord (for modern equivalents of solidarity in total institutions see Douglas, 2001, on Catholic boarding schools, and Wickham-Crowley, 1992, on the devotion of university students to *guerilla* leaders). Submission to a landlord was the most rewarding livelihood strategy for the masses - no matter how harsh the landlord, at least his rule compared favorably with the anarchy outside the *hacienda*. The landlord provided subsistence, protection, leadership, and exemplariness - he was the enlightened patriarch, authoritarian and benign, ruling with 'stick and carrot.' The legitimacy of his rule was further founded on clerical teachings of blind faith in God, King and Father. In this patriarchal worldview, the landlord is commanded by God - who is Himself "the final patron and ultimate source of all patronage" (Kenny, 1977: 356) - to carry the 'burden' of leadership. In this way, the *hacienda* became accepted as a legitimate institution, despotism as legitimate leadership, and fatalism emerged as an inevitable condition of the masses (cf. Kay, 1980; Loveman, 1988).

Chile developed as a highly stratified society, in which landownership was the dividing line between the powerful and powerless. The colonial elite, intertwined through purposeful marriages, held hegemonic sway over the economy and exercised wide autonomy *vis-à-vis* the crown. "It was a Spanish political axiom to keep the colonial

administration weak. All important decisions were made in Spain. The crown endowed the vice-kings and other high officials with little authority. The bureaucratic apparatus was small and corrupt" (Slicher van Bath, 1981: 10; my translation). The elite was free to please itself, corrected only by religious piety. The concentration of power and wealth into the hands of a privileged few was to become a structural feature of Chilean society:

> "Hispanic capitalism left an indelible mark on Chilean society... Overt deference to authority combined with systematic evasion of the law became the norm. Intermingling of private and public business blurred the distinctions between corruption and routine public administration... Centralized, authoritarian, and often arbitrary policymaking became the expected, accepted pattern of government" (Loveman, 1988: 105).

In sum, three centuries of colonial rule rooted a crude patron-client institutionality in Chile. The *encomienda* introduced it into Chile as a basic structure for building up the country's first national regime. In response to demographic developments, patron-client institutionality transformed from *encomienda* into *hacienda* - the relation 'conqueror-native' grew into a landlord-tenant relationship, but without much amelioration of the original dominance of the conqueror. The Spanish colonial regime thus established patron-client institutionality as a Chilean prototype for social organization. Compare this to the Netherlands, where water associations constitute the national prototype for social coordination. The water associations - *hoogheemraadschappen* - were territorial platforms in which different stakeholders gathered to manage the risks and use of water - the biggest friend and enemy of the Dutch. This platform type of social organization may be perceived as the roots of the Dutch 'polder model.' Historian Simon Schama (1987) describes it as the 'moral geography' of the Dutch:

> "It had been the perennial threat of flood in the already waterlogged lands of Holland... which, as early as the eleventh century, had prompted their lords... to offer the inducement of semi-free tenurial status to any farmers prepared to colonize and settle the region... The feudal system was poorly equipped to supply the protection or indeed the extortion that underwrote its commands. So that the hardening of feudal hierarchies that took place elsewhere in Europe towards the end of the Middle Ages went by default in the Netherlands... The autonomy of local communities in respect of taxing themselves to meet hydraulic needs was the territorial basis for their assumptions about the 'ascending' nature of political authority, conferred (or at least assented to) from below, rather than devolved from above" (Schama, 1987: 40-41).

The need for efficient hydraulic administration prevented Dutch aristocrats ramifying patronage by appointing - often incompetent - relatives as local governors. So a simple model of democratic rationality rooted early among the Dutch, and still serves today - richly elaborated - as the Dutch 'polder model.' Likewise, in Chile, the *encomienda* and *hacienda* established a patron-client prototype of social organization, the features of which are still manifest today.

3.3. The autocratic republic (1818 - 1870s)

Under the Bourbon reforms, the crown's role had hardened from royal paternalism into efficient despotism. By imposing a new intendancy system to run local affairs, the arm of the central government reached out to control the colonial upper class (Goldwert, 1980). While the latter's discontent grew, the power of the crown weakened due to wars with Napoleon and the emerging British empire. Assisted by General San Martín, the great liberator of Southern America, the Chilean upper class eventually overthrew the colonial regime in 1818. In the absence of a clear national identity, the country was drawn into a civil war (Slicher van Bath, 1981). Yet Chile was the quickest of all Hispanic colonies in establishing a stable political order. In 1830, the conservative businessman Diego Portales founded the 'autocratic republic.' "Republican in form and authoritarian in practice, the new political regime reconsolidated the Hispanic ideal of a strong, centralized executive" (Loveman, 1988: 111). Considering democracy 'an absurdity in countries like those of America,' Portales established the archetype of patrimonial statesmanship that helped later presidents like Augusto Pinochet legitimize their dictatorial regimes (Kievid, 1993).

Autocracy laid the foundation for a stable political economy. For almost a century, Chile would be governed by an oligarchic upper class built around landed interests and intertwined through family connections (Montero, 1997). The stability of the Chilean 'democracy' was to become unique in the Latin American context, where "caudillo dictatorships, palace revolutions and civil wars were constant and commonplace" (Collier and Sater, 1996: 51). The backward colony would become a model republic, proudly nicknamed the 'England of the continent.' The enlightened gentlemen ruling the country did not bother this was achieved at the expense of large doses of fatalism among the masses. Independence had liberated the elite from the restraints of Spanish authority, but did not bring political or economic improvement to the vast majority of Chileans. The ruling class embraced the Enlightenment and liberalism, but more in a cultural sense than in terms of institutional practice, where for a long time structures of social exclusion were kept in place. "A republican state was built up and democratic forms of government were introduced but all this with *de facto* extraordinary restrictions to the wide participation of the people" (Larrain, 1999: 182-7). Through the manipulation of votes and the appointment of dependents to high office, the state became identical with the ruling party:

> "At the outset, the impartiality, reliability and credibility of the state were subject to serious doubt. Personalism and corruption impeded the formation of a solid bureaucratic apparatus. The foundations of the state immediately exhibited serious flaws" (Slicher van Bath, 1981: 13; my translation).

Political stability, no matter how unjust, paved the way for impressive economic growth. Steamships, railroads and telegraph connected Chilean hinterlands to London and other

centers of world capitalism. The value of Chilean exports quadrupled between 1845 and 1875, half of which was accounted for by copper mining (Collier and Sater, 1996). Wheat exports were the second major contributor to growth, increasing fourfold between 1850 and 1875 (Kay, 1992a). This export boom led to commoditification and technical modernization of agriculture, but left the patriarchal rural society intact. A factor was the way the *haciendas* expanded, with their prosperity inducing "the previously floating population to settle at the fringes of the large estates" (Mamalakis, 1976: 121). This response by the *hacienda* to the integration of Chile into the world economy is an example of the impressive resilience of patron-client institutionality. Under the rise of commercial agriculture, the *hacienda* proved more viable than the two alternative 'roads to capitalism' - there was no expansion of small family farming, nor a transition to wage labor (cf. Bauer, 1992; Kay, 1992a). The *hacienda* manifested itself as the unrivalled territorial and social unit in the country, accommodating around three-fifths of the total population and playing the role performed in other countries by rural villages and townships (McBride, 1970).

The *hacienda* contributed greatly to political stability. "Few people in the countryside were aware of an alternative life. Most people, even after radios and newspapers were common, lived with the conviction that nothing could be changed; many others believed that if things were bad, a change would only make them worse" (Bauer, 1992: 27). The ownership of a *hacienda* remained the clearest emblem of membership in the national elite (Collier and Sater, 1996). It was a source of income and prestige but above all a base for political power. The control over rural votes enabled landowners to appropriate the presidency, and to control the legislature, the judiciary and the state apparatus (Kay, 1992a). This dominance by landed interests created scope for patron-client institutionality to expand from the *hacienda* into other areas of political-administrative organization. The Chilean elite, emulating the life style of European aristocrats, built up a nation state that excluded and marginalized the masses through governance based on patronage. Paternalism became equated to political leadership, and clientelism to popular representation:

> "The separation between landlord and servant shaped the entire social structure: the differentiation of upper and under classes, the governmental institutions, the codes of law, the access to public resources. The entire life of the nation was built upon the hacienda" (McBride, 1970: 98).

This is not to imply that the ruling class was composed of landowners only. Nineteenth-century Chile was governed by a multi-sectoral upper class intertwined through family and business connections. "Endogamy and *compradazgo* preserved the basic solidarity of a ruling elite whose economic interests extended from agriculture to mining, commerce, banking and later, industry" (Loveman, 1988: 159). This incestuous melting-pot was internally divided by rival factions comprising family and friends sharing common interests and political ideals. These "horizontal social networks" (Lomnitz and Melnick, 2000: 21) grew into formal political parties as the autocratic republic was undermined by its own success. Once order was established, the elite was no longer willing to grant unconditional support to the absolute power of the executive. In the 1860s, four political parties were formed. The National Party gathered the upholders of autocracy. The Conservative Party desired a parliamentary system and a strong role for the church. The Liberal Party rejected Catholicism as state ideology and fought for liberal-democratic principles. The Radical Party organized the more militant liberals.

The parties were "still no more than loose agglomerations of upper-class politicians and their clienteles" (Collier and Sater, 1996: 122). Their ideological differences were more apparent than real. Liberal presidents proved "just as likely to abuse presidential power as any of the Conservative or National Party presidents" (Loveman, 1988: 180). Extended suffrage, enacted in 1873, did not deepen the democracy but provided landowners with disproportionate political power. Prescribing the use of colored ballots, electoral reform extended their control over the votes of the rural population. Until the 1920s, landlords would control around one-third of the Congress (Bauer, 1975). The electoral law constitutionally underpinned the survival of the *hacienda* throughout Chile's modernization as an urban, industrial society (Kay and Silva, 1992).

The Great Depression (1873-1896) was a great blow to the economy. Copper prices fell by 20 percent and wheat exports dropped by one-third (Collier and Sater, 1996). In the depth of the crisis, the *hacienda* became the target of vociferous urban criticism, in response to which the landowners did not abolish but expanded the system, settling thousands of additional families on the estates (Bauer, 1992). It was the second time that the *hacienda* endured a major economic threat to its existence - once again its survival and expansion illustrate the resilience of patron-client institutionality. At national level, the crisis was deep. The export economy dried up, whereas the import of luxury goods continued. The trade deficit weakened the country's financial institutions, and in 1878 the bubble seemed about to burst (Loveman, 1988). But then came a gift straight from Heaven. International diplomatic conjuncture gave Chile one of the most powerful of all measures against recession: war. Chile gained victory over Peru and Bolivia in the War of the Pacific (1878-1883), and annexed the rich nitrate fields of the Atacama desert. In the postwar spirit of national superiority, a victorious army was sent south, and smoothly subjugated the Mapuches. Another group of fatalists was integrated into Chilean society in a way resembling Spanish colonization.

The Chilean elite, behind a superficial adherence to liberalism and Enlightenment, reproduced the colonial administrative model. In independent Chile, patron-client institutionality reshaped itself from royal kingship into the autocratic republic - i.e. an authoritarian, personalistic regime through which a small upper class held hegemonic sway over large masses of fatalists excluded from all political decisions. In the countryside, where four-fifths of all Chileans lived, the *hacienda* expanded with the rise of capitalist agriculture. As landed interests dominated the state and the political system,

the entire country was run like a giant *hacienda*. Paternalism came to be equated with leadership, and patron-client relations ramified across the institutions of the state.

3.4. The parliamentary republic (1880s - 1930s)

Victory in war made Chile a rich country. Export taxes on nitrates - at a time when advanced agriculture was suddenly hungry for nutrient imports - financed a strong state that modernized Chile through an ambitious program of public works, educational improvements, and professionalization of the armed forces. Impressive as this modernization was, it carried serious political dangers. Growth of the public sector created a scramble for contracts, and raised the stakes in the distribution of patronage positions. It heightened the rivalry between the factions associated with the political parties, and, in particular, exacerbated the tensions between autocratic presidents and a Congress increasingly attracted by parliamentary ideas. These tensions resulted in a deadlock in 1890. The Congress refused to pass the budget bill, leaving president Balmaceda without means to govern the country, while a sharp recession in the nitrate sector led to massive unemployment and Chile's first workers' strike. This was enough to set in motion a civil war that ended in the victory of congressional forces. Balmaceda - a progressive if autocratic president - shot himself, and autocratic Chile became a 'parliamentary republic' (Loveman, 1988).

The parliamentary republic instituted the political parties as building blocks of Chilean society. They linked the provinces to Santiago, and life to politics. “Party spirit came to seem inseparable from the Chilean way of life” (Collier and Sater, 1996: 214). Though gradually formalizing, the parties continued to be based on informal “horizontal groups of friends from the same generation” glued together by “common life-styles around a shared political ideology” (Lomnitz and Melnick, 2000: 6). Due to their lack of programmatic coherence, the political parties, no longer bridled by a strong executive, made a mess of the national polity - cabinets lasted on average only 5 months in the period between 1891 and 1924 (Alvarez, 1936). “Factionalism within the parties was endemic, and stable congressional majorities were impossible. The ground was constantly shifting” (Collier and Sater, 1996: 193). A diarist of the time wrote: “This is not parliamentarism, nor a regime, but the most reckless anarchy, produced by the irresponsible dictatorship of 150 congressmen” (ibid.: 149). Whatever it was, it created impotent governments, poisoned by the easy wealth of nitrate, blind to the misery of the growing working classes.

Politicians were recruited mainly among two interest groups: the landlords' *Sociedad Nacional de Agricultura* (SNA) and the industrialists' *Sociedad de Fomento Fabril* (SOFOFA) (Carriére, 1981). The nitrate sector, motor of the economy, did not participate in politics directly because it was predominantly British-owned. The SNA, founded in 1838 as “a charitable institution with a *noblesse oblige* flavor” (ibid.: 15), operated as a sort

of private ministry of agriculture, charged with the administration of government programs until a true ministry was formed in the 1920s. SOFOFA, created in 1883 by the SNA, was also intimately connected to the political elite but operated like a true interest group, independent from public governance. Despite its successful lobby for tariffs and subsidies, industry did not really take off. Wheat milling was already established, but efforts to establish industries in, for instance, sugarbeet, tobacco and oil-crops did not thrive until the late 1920s (Faiguenbaum, 1992). Considering the availability of ample nitrate revenues, it can be stated that Chile missed a golden opportunity to industrialize (Kay, 1992a; Montero, 1997). This was blamed on the conservatism of the landlords and their lack of support for 'integrated agriculture-manufacturing policies' (Mamalakis, 1976; Encina, 1912). But the charge that landlords preferred a rentier economy over innovative enterprise ignores the fact that since 1850 they had been exporting wheat across the globe and introducing cutting-edge technologies in areas like wine processing (Correa, 1938). Furthermore, fully-fledged contract farming was introduced in Chile as early as 1858 (Faiguenbaum, 1992), and since 1895 landowners and industrialists had been organizing joint congresses and fairs to stimulate agro-industrialization. So there is ample evidence of innovative entrepreneurship and technological modernization in the Chilean agro-sector.

The key to the puzzle of Chile's frustrated industrialization is, in my view, provided by the quote at the end of Chapter One, where the 1899 agro-industrial congress pictures the industry as 'Mentor and Maecenas' of farmers. The quote showed that in a sugarbeet contract grower scheme virtually all tasks related to crop production were concentrated in the hands of agro-industry. If such a task division reflects a low level of trust across the chain, as I argue in Chapter One, then it may be asserted that agro-industrial chains in 19th century Chile were already plagued by distrust - the same distrust that hampers the tomato chain today. Hence, it can well be that institutional distrust rather than a lack of entrepreneurship slowed down the pace of agro-industrialization in Chile. This line of reasoning is apparent in the following quote:

> “We farmers are the victims of inadequate trade legislation... The laws do not establish procedures for the prevention of fraud, nor rights for the prejudiced... Merchants should be obliged to make an exact statement about the quality of the goods they offer, and farmers should dispose over laboratories to test these statements” (Astorquiza, 1899: 157; my translation).

In short, institutional distrust was seen as an impediment to economic growth. Further evidence can be seen in the retrospective writings of an industrialist in 1936:

> “If the presidential regime was bad for industry, then the parliamentary regime was a disaster... Each party and political faction was dedicated to attacking other groups. They did not build nor let others build. They gave more importance to personal affairs than to the country's economy... Lost in political battles, the country slowly developed towards chaos” (Alvarez, 1936: 228-30; my translation).

Factionalism and personalism impeded building up a reliable institutional environment for sustained economic growth. Investments were abandoned as Chile's institutions failed to cover increased levels of risks and organizational complexity. Rather than a lack of entrepreneurship, I argue, it was a climate of institutional distrust that hampered industrialization - distrust inherent to patron-client institutionality. Here, the perspective of patron-client institutionality shows its merits by demonstrating that organizational factors and associated values, rather than vague psychological notions, account for Chile's path of development.

Failed industrialization implied that agriculture continued to be based on wheat and livestock, and the countryside on the *hacienda*. But ever more Chileans left the estates to settle in towns and nitrate fields. From a rural nation of 2 million people in 1880, Chile became an increasingly urban country of 3.7 million in 1920 (Loveman, 1988). These demographic trends began to undermine the power base of the traditional oligarchy, as new groups tried to find their way into the political system. The embryonic middle class, which emerged with the growth of the state, was represented by the Democratic Party, founded in 1887. Socialist worker unions tried to insert themselves into the polity linked to the Democrats. But the labor movement was predominately anarchistic and rejected all compromise with state, government and parties. This attitude reflected the harsh working conditions in, and the volatility of, the nitrate economy. The periodic downturns of prices inflicted mass unemployment, and dismissed workers spread across the country (ibid.). Nitrate workers placed in agriculture resisted the landlord's traditional authority and stirred up the *inquilinos*. Landowners reacted by expelling agitators, shifted to labor-extensive modes of production, and expanded tenancy, to politically neutralize their workers (Bauer, 1992). Union organization, legal in the cities, was prohibited by law in the countryside (Zeitlin and Ratcliff, 1992).

The ruling class refused to acknowledge the legitimacy of the labor movement and frequently used armed force brutally to repress riots and strikes. It disregarded the new reality of the country and refused to open up the polity to new social forces. Instead of addressing the misery of the growing working classes, the oligarchy idled away its time in pursuit of aristocratic life-styles (Kievid, 1993). Internal taxes, such as those on land and capital, had practically ceased to exist - in 1916, they generated only four percent of all state revenues (Loveman, 1988). The government failed to diversify the economy for when the nitrate boom would end. One president argued that there are only two types of problem: "One that resolves itself, and another that cannot be solved" (cited in Collier and Sater, 1996). It was evident that this inert regime could not last forever. Yet it took a decade of chaos to end it.

The development of artificial fertilizers provided a first blow by devastating the nitrate economy. Exports declined by almost seventy percent. It was against a background of massive social unrest that the elections of 1920 were held. For the first time in Chilean history the candidate of the landlords lost - Arturo Alessandri became Chile's first populist president. But euphoria changed to frustration, as Alessandri, facing an

obstructive Congress, was unable to fulfill his promises. President and Congress became entangled in a stalemate, and on September 11th, 1924, a group of military officers headed by Carlos Ibáñez staged a coup against the Congress. The armed forces, disciplined on Prussian lines and imbued with pride and nationalism, despised parliamentary politicians. "They would no longer tolerate the sterile politics of salon, intrigue, and immobility" (Loveman, 1988: 191-2). The military imposed a constitution that shifted the balance of power back from Congress to president, and thereby ended the parliamentary republic.

After the proven unviability of parliamentary democracy, Ibáñez returned to classic Hispanic patrimonialism. Proud of his nickname - 'Chile's Mussolini' - he restricted civil rights, repressed the opposition, and assaulted the labor movement. Under such imperative rule, Chile turned from a rural aristocratic society into a modernizing urban-oriented polity. Administrative reforms introduced universalistic norms in recruitment to an expanding state apparatus previously manned through patronage. The 1931 labor code was the state's first recognition of its role in regulating class conflict, though at the same time a highly paternalistic system designed to control the labor movement. The state assumed an explicit role in encouraging industrialization and economic growth, but it also doubled Chile's foreign debt (Collier and Sater, 1996). The price was paid when the Wall Street crash triggered the Great Depression of 1929. According to the League of Nations, Chile was the country most affected by it. Total exports fell by 64 percent, imports by 75 percent, and purchasing power by 84 percent (ibid.). Strikes were everywhere; not even rough intervention could control the disturbances. "For the first time in Chilean history, a government was forced to yield to civil protest" (ibid.: 221-2). The next seventeen months brought a number of civilian and military governments of opposing political tendencies, including 100 days of a 'Chilean Socialist Republic.' Then, in 1932, Alessandri was elected president for his second time - "the one candidate whose name offered the prospect of future stability" (ibid.: 226). He faced the task of building up the country on the ruins of the Great Depression, the collapse of the export market for nitrates, and four decades of postponed internal change.

In the parliamentary republic, patron-client institutionality helped shape a despotic, inert regime in which the oligarchic upper class, poisoned by easy wealth from nitrates, continued to govern the country as if it were a big *hacienda*. A short-lived but decisive recurrence of patron-client institutionality in its classic Hispanic form - i.e. patriarchal authoritarianism - then paved the way for a renewed chance for Alessandri to build up a society with a decent place for the hitherto excluded masses. Whether or not that new regime was to break with patron-client institutionality will be analyzed in the next section.

3.5. The compromise state (1930s - 1964)

In a devastated economy, industrialists and landowners now pressed for state protection. Alessandri erected a complex system of import quotas, tariff barriers and multiple exchange controls to give a push to domestic industry. The choice for industry was logical. It was already the most dynamic sector of the economy due to a natural form of protection - i.e. lack of foreign currencies (Kay, 1992a). More importantly, it was the only sector that offered the prospect of both employment and modernization. Copper mining, revived under the introduction of flotation technology, was the engine of the economy, but it employed relatively few workers (Kievid, 1993). Nor was there any way of creating jobs in the countryside, as long as it remained dominated by the *hacienda*. Import-substitution-industrialization (ISI) promoted by a strong state seemed the natural way forward.

To that aim CORFO, the national development corporation, was created in 1939. At an impressive pace CORFO built up the country's industrial infrastructure. Between 1937 and 1964, Chilean industry grew at 5.1 percent per year (Kay, 1992a), diversifying from food processing into metal and copper, electronics, chemicals, pharmaceutics, cement, meat packing, textiles, shoes, cars, and more. The import of industrial goods declined from 50 to 16 percent of total imports (Loveman, 1988). Perhaps as significant was that CORFO created the entrepreneurial state - public employment more than tripled between 1925 and 1965 (without counting state firms) (ibid.). In the 1960s, state expenditure reached 40 percent of GDP and half of all investments (Kay, 1992a).

This strong state reflected a fundamental change of the political landscape. A clear Left-Center-Right system of political cleavage had replaced the old politics of factions and personalist cliques (Loveman, 1988). The Radical Party became a center party for middle classes that played the key role in national politics, pragmatically allying with both Right and Left. Its leaders were paternalistic intellectuals dedicated to public life, trained by freemasons at the University of Chile (Lomnitz and Melnick, 2000). They created the 'compromise state' - a populist alliance of industrialists, middle classes and urban labor which promoted ISI, social welfare, and widening democracy. The compromise state gave the Chileans bread and games. "If the parliamentary period had been the *Belle Époque* for the upper class, the years after the 1930s were when the Chilean middle class came into its own" (Collier and Sater, 1996: 285). With expanded suffrage, an influential labor movement, and a genuine political Left, Chile ranked in 1965 among the world's fifteen most democratic countries (Kievid, 1993).

But the compromise state still retained patron-client institutionality - it had reshaped itself from despotic parliamentarism into party-directed political patronage in a newly created 'state *hacienda*' (cf. Kay, 1992a). The middle- and working classes were brought into the political arena in a dependent, vertical way. The modernization of Chile's political system "did not eliminate the particularistic/personalistic features of parliamentary politics; nor did it manage to check the authoritarian/despotic tendencies of the state" (Mouzelis, 1986: xvi). Access to the welfare state - a new super-patron - required mediation by the political parties, amongst which the presidents dispensed patronage positions to keep their multi-party coalitions together (Montecinos, 1998). The parties thus grew into society's backbone:

> "Through the parties, civilians could get things done by the government. Only landowners and large entrepreneurs had direct access to government and high officials. Workers and their unions had little influence upon the state without mediation by the parties. Those without a party, such as the rural working classes, were not listened to" (Kievid, 1993: 10; my translation).

While the party top was involved in pragmatic negotiation, civil society became pillared into Left, Center and Right. "Party-oriented youth movements, retail shops, sport clubs, doctors, and even barber shops allowed most people's daily lifes to go on within a network of party loyalists" (Loveman, 1988: 271).

Business interests remained the preferred clients of the compromise state. Due to the pro-landowner bias of the electoral system, the Right still controlled around one-third of the Congress. It allowed the middle class to build up the welfare state, and urban labor to unionize, but gave no room for a real redistribution of wealth and income. The business peak associations dominated the allocation of public resources through their control of the new corporatist state apparatus (Silva, 1996; Valdés, 1995). "One of the unique features of Chilean administrative practice [was] the quasi-corporatist way in which the state agencies in a wide variety of fields were governed. No less than forty such agencies have been set up in Chile since the 1920s" (Carriére, 1981: 65). Corporatism in the context of centrally-led industrialization created a web of reciprocal dependency relations across the public and private sectors so close that it was hardly possible to differentiate between the two domains. Chile's industrial class was formed by high-placed civil servants and party militants, who had gained control over the industrial sector through public service. They were "a loyal and cooperative extension of the central state" (Véliz, 1980: 263). The ISI regime allowed them to expand their wealth in a protected economy regulated by themselves. The economy came to be dominated by a dozen of large family-owned conglomerates built around banks and industrial interests. These were the decades of 'patrimonial capitalism' on the 'industrial *hacienda*:'

> "The macroeconomic context facilitated a highly concentrated capital structure, controlled by a small number of economic conglomerates directed by families... The links between economic and political power were very close. The names of the 'big families' appeared repeatedly in the highest positions in government and parliament" (Montero, 1997: 106-7; my translation).

Landowners held considerable power in the Congress, but stood at the sideline of the ISI coalition. They were being discriminated against through price controls on all essential agricultural products. Cheap food was crucial to the compromise state. Due to chronic inflation, massive undernourishment and the rise of a politicizing labor movement, no

government could afford food prices to rise (Loveman, 1988). In exchange for their acceptance of the ISI regime, the landlords were given a variety of direct and indirect subsidies, the most important of which was the consent to maintain the *hacienda* at the expense of continued repression of rural unionization. The labor department, charged with enforcing the Labor Code, was ordered not to operate in the countryside (Loveman, 1988). In other words, the compromise state was kept together by the categorical exclusion from political and economic participation of the rural population - little less than half of all Chileans (Table 3.1).

Table 3.1: The political economy of the compromise state

Socio-political actor	Real income increase (1940 - 1954)	Position in the political economy
Urban and industrial entrepreneurs	+ 60%	dominating coalition partner
Employed middle classes	+ 46%	dominating coalition partner
Landowners	+ 33%	respected sideline partner
Urban and industrial workers	+ 7%	subordinate coalition partner
Rural workers	- 18%	excluded fatalist
Tenant farmers	- 27%	excluded fatalist

Source: Kievid, 1993: 22

Besides being a central pillar of the compromise state, the continued political marginalization of the rural population was also a core weakness of the ISI regime. This became apparent in agriculture's failure to provide enough food to feed the country. Between 1930 and 1964, agricultural output grew at 1.8 percent annually, while food demand increased at 3 percent yearly (Kay, 1992a). Once an agricultural export country, Chile became a net food importer. In 1964, food imports consumed one-fifth of the country's foreign exchange earnings (ibid.). CORFO was well aware of the problem:

> "Examining the situation of agriculture, we see one transcendental fact: AGRICULTURE DOES NOT PROVISION WHAT THE COUNTRY NEEDS. The fundamental causes of this situation are: (1) the limited application of modern techniques; (2) the lack of economic resources" (CORFO, 1940: 1; my translation; capitals in original).

Inspired by this technocratic analysis, the state invested heavily in the modernization of the agro-sector. A ministry of agriculture was created in 1925, and a number of laws established fiscal privileges to encourage innovation (Correa, 1938). CORFO invested in rural roads, irrigation, new animal breeds and crop varieties, advice centers, and experimental farms. Agribusinesses were set up in meat, milk, wood, vegetable oils, fruits, and, most importantly, sugar beet. Even more money was spent in direct credits to farmers (CORFO, 1968). But all this failed to raise yields to the required levels. The problem of agriculture was not a lack of resources but rather their distribution. Chile's land tenure structure was the most uneven in Latin America - 1.7 percent of the farmers

owned 46.9 percent of all arable land (Zeitlin and Ratcliff, 1992). This impeded the emergence of a technically efficient economy. "While the *minifundia* had too much labor and too little land, the reverse was true of the *latifundia*" (Kay, 1992a). A land reform was indispensable for sustained agricultural growth.

The landlords themselves had already started to modernize the *hacienda*. Tenancy was becoming less attractive than the use of wage labor, due to the application of new technologies. Between 1935 and 1964, the proportion of tenants in the rural work force dropped from 40 to 6 percent (Bauer, 1992). The shift toward wage labor undermined the key mechanism of control on the *hacienda* - i.e. the extension of privileges to a few while excluding others (Hart, 1986). As the differences between tenants and other laborers disappeared, the tenants' feelings of being privileged gradually turned into a form of class consciousness (Kay, 1980). Migrated family, radios and cheap transport opened up the outside world to the *inquilino* and the *hacienda* ceased to be a total-life system. The tenant started to develop a range of direct relations with the outside world, from where he obtained new goods, services, values and ideas. Many of these relations developed into new forms of lasting dependency with, for instance, the merchant who gave credit, the doctor who attended in emergencies, or the party militant who could get things done by the state. The previously exclusive landlord-tenant relation was thus complemented by an array of new patronage relations. As their traditional authority dissolved, the landlords increasingly reverted to the state for administrative or physical repression of their workers. This only served to reinforce their decline. By the early 1960s, most Chileans had come to consider the landed elite as the major cause of the country's stagnation (Collier and Sater, 1996) - even though the 'industrial *hacienda*' created for the urban migrant retained much of the institutional culture of the traditional *hacienda* system.

The increased sovereignty of the rural population started to have serious political consequences when an electoral reform in 1958 introduced a single official ballot and thus liberated the rural votes. This reform had been implemented by no other than former dictator Carlos Ibáñez, whose remarkable return as president was based on the massive discontent built up during fourteen years of Radical government. The Radicals had financed the entrepreneurial state through chronic inflation rather than progressive taxation, and had thus quickly exhausted the 'easy phase' of ISI. The economy stagnated on the built-in inertia in agriculture, the concentration of property and income, the over-reliance on copper exports, and the low level of domestic consumer demand. Excessive state involvement had allowed for pervasive inefficiencies - local goods were far more expensive than foreign equivalents (Mamalakis, 1976). Fed up with favoritism and false promises, the voters "were ready for someone above politics, a wise father, a man on a horseback." (Collier and Sater, 1996: 250). But neither Ibáñez nor his successor Jorge Alessandri - also a patriarch who stood above the parties - succeeded in reviving the economy. The private sector remained dependent on the state, and the latter's "policy-making capacity was being eroded by mounting clientelistic pressures" (Montecinos,

1998: 16). Import-substitution-industrialization had failed to modernize the country's political culture:

> "Without doubt, there has been change. But this change, instead of breaking the traditional structure of the Chilean society, has been absorbed by it... Instead of advancing towards a system that awards merit and effort, the Chilean society has extended onto the new classes the traditional system of clientele politics, which in its structure and functioning is totally incompatible with the organization of a modern, efficient society" (Sunkel, 1965: 536; my translation).

The state's failure to address the vast inequalities in society, and the continued misery of almost half of the population, generated a climate of massive frustration. The call for structural reforms was mounting. Land reform and nationalization of the copper mines came to dominate the political agenda. Society polarized, as four decades of state-centrism had brought all other areas of social life into the political sphere (Montero, 1997). Coalitions and compromises were increasingly difficult - "the period of exclusionary politics had begun" (Silva, 1996: 38). In the 1964 elections, the Right allied with the Radicals, while the Left presented Salvador Allende. The Center was represented by a new party, the Christian-Democrats (PDC), whose structural reform program stood somewhere in between "reactionaries with no conscience" and "revolutionaries with no brains" (Collier and Sater, 1996). The PDC, led by Eduardo Frei, won the elections with an absolute majority of votes - it was a clear mandate for a new regime.

The Compromise state was a modernizing regime promoting industrialization, social welfare and widening democracy. But it still retained patron-client institutionality - this time, in the guise of party-directed political patronage dividing stakes in a newly created 'urban/state/industrial *hacienda*.' The compromise state went to rack and ruin through failing to tackle the structural inequalities in Chilean society. In mid 20th century urban Chile, it finally seemed impossible to maintain the country's inherited institutions of oligarchic dominance - i.e. the traditional *hacienda* on the countryside and the handful of political families dominating the economy. No longer was it possible to exclude half of the population from political and economic participation. Four centuries after being introduced by the Spaniards, the patron-client coalition of hierarchism and fatalism seemed no longer viable as societal model. Chile became a laboratory for three all-embracing revolutions, each of which attempted in a different way to break down the patrimonial order and install a radically new model of society.

3.6. Revolutionary Chile (1964 - 1990)

The symbol of the Christian Democratic Party was an arrow with two bars across the stem. It stood for the idea that both capitalism and socialism could be transcended in a communitarian society - i.e. a society organized in *corpora*, where capital and labor harmoniously resolved their differences (Collier and Sater, 1996). To make this happen, the PDC embarked on the 'Revolution in Liberty,' a sweeping governance program with

two central axes. First, it aimed structurally to reform the country through rural unionization, integration of the poor, land reform, progressive taxation, and 'Chilenization' of the copper mines. Second, it aimed to modernize the economy by encouraging exports, industrial productivity, agribusiness development, foreign direct investment, and regional economic integration. Supported by the middle and working classes, the PDC hoped to gain organizational control over popular sectors and to attract progressive businessmen into the project, thus forcing traditional business sectors to modernize as well (Montero, 1997).

Public spending doubled between 1964 and 1970. Housing, education and health care were priorities, but the leaking bucket was 'popular promotion' (Loveman, 1988). Chile's urban poor and rural fatalists were integrated into society by organizing them at grassroots level and supplying them with jobs, goods and services. To stir those whose values had been shaped at the bottom of the *hacienda* pile, the government created a vast network of unions, cooperatives, mothers' centers and neighborhood councils that placed more than 1.5 million Chileans under direct government tutelage. In the countryside, INDAP, a new agency charged with rural development, organized forty percent of all tenants, laborers and peasants (Kay, 1992a). In six years time, the rural unions expanded from 1,800 to 140,293 members - two-thirds under direct PDC control (Silva, 1988):

> "There was barely any distinction between the union leadership and the INDAP *promotores*. The leaders were to a large extent people originally put forward by officials and who could consolidate their position through any number of elections [as they had] an intransmissible capital (personal contacts) and monopoly in information" (Lehmann, 1992: 119).

The other element of the agrarian policy was, of course, land reform. Frei did not want to abolish the large estate but to make it more efficient with a stick and carrot approach. The government expropriated only inefficient estates, while stimulating innovation through higher prices, cheap credit and an array of subsidies (Valdés, 1995). CORA, the agency charged with the reform, expropriated a quarter of all estates - i.e. 17 percent of total arable land - and redistributed it to 28,000 *inquilino* families (Kay, 1980). These were organized into *asentamientos*, a type of cooperative jointly directed by CORA and the *inquilinos*. After five years of operation, the members had the right to private plots. But the *asentamiento* became self-perpetuating as its members discovered the advantages of an administrative system of distribution of credits and other benefits, as opposed to a system dependent on market processes (Lehmann, 1992). The *inquilinos* were the new privileged class in the countryside, possessing six to nine times more land than independent peasants, while enjoying privileged access to credit, inputs and machinery. Ninety-four percent of the old *hacienda* population were excluded from these benefits (Kay, 1992b).

Thus the agrarian reform organized the countryside on a massive scale, but benefited

only a very small part of the rural population. Distribution of land to 28,000 families alienated many times that number. The reform had the opposite effect to that which the PDC intended. Instead of preventing an eventual socialist revolution by establishing organizational control over the rural poor, it intensified class struggle and ideological polarization (Kay, 1980). The only satisfied clients were the *inquilinos*. The PDC had overestimated its capacity to control the rural workers unions and peasant organizations. Though placed under the tutelage of the PDC, the new rural organizations could not be controlled politically:

> "The new system of patronage was different from that prevailing on the *latifundio* before. Contact with the outside world was more diversified... Whereas the *hacendero* needed only the support of some of his workers in order to control the rest, the new urban patrons and mediators sought the votes of as many peasants and rural workers as possible" (Lehmann, 1992: 119-120).

Incited by leftist activists, those excluded from the new system of state patronage radicalized their demands and actions. The year 1970 brought 1,580 illegal strikes and 456 land seizures, in response to which the landed elite mobilized and radicalized as well (Silva, 1988). Initially, SNA's response to the agrarian reform had been moderate. Knowing that capitalist agriculture could survive only through becoming more efficient, SNA's objective had been to safeguard the position of efficient producers (Carriére, 1981). But when the PDC failed to enforce the right to private property, the landowners mobilized to combat illegal actions by workers. In five years time, the SNA exploded from 1,722 to 4,388 members (Kay, 1992b).

The problems of the countryside illustrated the flaws of the Revolution in Liberty at large. It proved impossible to integrate Chile's urban poor and rural fatalists into the 'state *hacienda*' without disturbing political stability. The PDC had hoped to establish control over the poor and to win the support of progressive businessmen, but in practice it alienated and radicalized both sectors. No way existed to implement the program without alienating the Right - similarly, no matter how successful the reforms, the Left could always urge for more extensive changes. The partisan way in which resources were redistributed further undermined the PDC's legitimacy (Loveman, 1988). The government lost control over the forces it had set in motion. If it chose to enforce the law, it necessarily employed force against rural laborers. While the Left deliberately confronted the government with this choice between chaos or suppression, landowners and industrialists restored their alliance in a reunited Right. Seeking the support of medium and small business, they consciously headed for a dangerous contest between Left and Right (Valdés, 1995).

For the 1970 presidential elections, the Right reverted to Alessandri, who promised to restore law and order. Salvador Allende was the candidate of the Unidad Popular (UP), a coalition of Socialists, Communists, Radicals and other parties. Most analysts predicted a slim victory for Alessandri, but it was Allende who won with 36.3 percent of all votes

(Silva, 1996). Rather than mandating one of the candidates, the electoral results illustrated the polarized situation in the country after the Revolution in Liberty had failed to modernize Chile's patron-client institutionality and create a new viable order. The PDC's failure to integrate the low-level fatalists without disturbing hierarchy paved the way for the world's first democratically elected Marxist president.

The 'Chilean road to socialism' was a unique attempt democratically to establish a society based on collective ownership. It rejected altogether the coalition of hierarchy and fatalism, and sought to install an egalitarian order instead. Organized masses would participate in the decision-making of a state with great control over an economy divided into three areas. The social area would include all expropriated companies, such as large estates, mines, banks, wholesalers, export firms, and 'strategic' industries. The mixed area was for joint ventures with foreign capital, and the private area for medium and small businesses (Silva, 1996). The UP hoped to get a majority support by brokering an alliance between working and middle classes, especially small entrepreneurs, around a policy of full employment, increased consumption, and collectivization of large-scale capital-intensive activity. Once such alliance had been established, a plebiscite would serve to change the constitution and install socialism (Valdés, 1995; Kay, 1992a).

But besides facing immediate hostility from right-wing sectors and opposition from the PDC, the UP lacked a popular mandate - "almost two out of three voters had voted against Allende" (Collier and Sater, 1996: 331). The UP was a precarious coalition built around the charisma of a Marxist freemason, and it lacked cohesiveness and underlying agreement. As a consequence, the government was never in control of the road to socialism. The expropriation process was chaotic and prompted declining productivity, sell-outs and frozen investments throughout the economy. In the first year of UP governance, the number of farm and factory seizures tripled (Silva, 1996). Instead of enforcing the right to private property, the government reverted to forgotten old laws to legalize seizures and speed up expropriation processes. Within three years, the state doubled its control over the economy to 60 percent of GDP (ibid.).

Managing the collectivized companies proved more difficult than expropriation. The managers and technicians who left the firms were replaced by unskilled social scientists, as the president tried to keep the UP together by dispensing patronage positions among the parties (Loveman, 1988). The new managers were unwilling to uphold patriarchal management styles and failed to exercise control over the 'liberated' employees. The laborers, instead of contributing to egalitarianism, acted on the basis of short-run self-interest. They radicalized wage demands, increased the number of strikes, and reverted to "corruption, stealing, absenteeism, [and] costly carelessness in the use of machinery" (Collier and Sater, 1996: 342). In 1972, the social area ran a deficit equivalent to 60 percent of total government revenue (ibid.).

The countryside witnessed the historic elimination of the *hacienda*, in 1965 still good for 55 percent of total arable land (Kay, 1980). The rural unions doubled to 283,617 members and were now for 60 percent linked to UP parties (Silva, 1988). The reformed

sector, which came to cover 45 percent of all arable land, was organized into state farms (Kay, 1992a). Again the workers benefited did not act as assumed by the government. Instead of working on collective land, they dedicated most of their time to their private plot to sell output on the black market. Instead of repaying state credits, cooperatives increased payments to individual members (Kay, 1980). Rather than imposing strict repayment, the state embarked on an awareness campaign. But the "peasants were inclined to regard any government advice as an echo of old paternalism, and any assistance that came their way as compensation for past injustice" (Collier and Sater, 1996: 340). By 1972 food imports consumed 56 percent of the country's export earnings (ibid.).

The entire economy was heading for major crisis, after having enjoyed one year of all-time record-breaking success. While the social area exploited all existing reserves and lay capacity in the country, the insecurity of private property induced businessmen to freeze investments, sell inventory at speculative prices and invest in hard currency (Valdés, 1995). Some called it sabotage, others saw it as capitalist rationality. After one year, the economy started to experience shortages and rampant inflation. The trade deficit exploded from 18 to 255 million US dollars. By mid-1973, inflation was so high that the UP's overall impact on real wages was negative (Loveman, 1988).

Political tensions grew even faster than inflation. Top business interests had already dedicated more than a year to plotting the end of the UP (Silva, 1996). The Monday Club, a group of top executives of the country's biggest conglomerates, had began to organize national opposition around the right to private property. The decisive event that drove small and medium businessmen into this so-called *gremialista* movement was the establishment of a state retail distribution system in mid-1972. "For once in Chilean history, here was a grassroots mass mobilization which owed little or nothing to the political parties" (Collier and Sater, 1996: 349). In October 1972, a *gremialista* strike culminated in the appointment of commander-in-chief General Prats into the cabinet. The strike "had made the military the arbiter of the nation's political conflicts" (Loveman, 1988: 304). In July 1973, negotiations in the Congress were paralyzed by PDC's demand for a completely military cabinet. The PDC now joined the Right and the *gremialistas* in calling openly for military intervention. At the same time, a group of officers demanded the resignation of General Prats - a freemason like Allende - and maneuvered a certain General Augusto Pinochet into position to decide over the country's future.

Pinochet installed one of the most repressive and longest-lived administrations in the history of Chile. The brutality and abuse of civil liberties exercised in curing the country from 'Marxist cancer' was a first taste of the effective leadership of Pinochet, who came to enjoy a level of power probably not even attained by his hero Portales. But his one-man rule was not exclusively based on terror and skillful maneuvering of loyalists. Until his arrest in London in 1998, approximately forty percent of all Chileans respected him (in the 1988 plebiscite, 43 percent of the population voted for Pinochet to stay another 8-year term as president). The cultural skills of the General will not be denied by anybody

who saw him, upon arrival in Chile, rise from his wheel chair after having acted the insane cripple for seventeen months in London:

> "With the cunning, resourcefulness, astuteness and suspicious mind of a *huaso*..., he touched a nerve in the Chilean culture. As he chastised the unruly and rewarded the obedient, was he not... the old estate-owner, writ large? A dictator he might be, but he was at least an identifiably *Chilean* dictator" (Collier and Sater, 1996: 363).

Blaming politicians for having led the country towards chaos, the military despised the paternal state nearly as much as communism. They were clear from the start that rather than restoring the *status quo ante*, they would embark on yet another revolution:

> "The armed forces will not define the length of its government, because the moral, institutional and material reconstruction of the country requires profound and durable action. It is necessary to change the mentality of the Chileans" (declaration by the junta, March 1974, cited in Kievid, 1993; my translation).

The military chose to do so by imposing a way of life that had not yet been tried as modernizing ingredient in Chile's political culture - i.e. individualism. Nearly a decade before the Reagan and Thatcher revolutions, Chile was the world's first nation to implement Chicago-school neo-liberalism, even though such ideas had no antecedents in Chilean public life. This historic anomaly derived from an "organized transfer of ideology from the USA" (Valdés, 1995: 13). A day after the coup, a document called the Brick arrived on the desks of the officers charged with the economy. It was an all-embracing program for economic liberalization, presented in the name of the *gremialistas* (Silva, 1996). Eight of the ten economists who had elaborated the Brick held a degree from the University of Chicago, obtained via an exchange program of the Catholic University of Santiago, set up and financed by USAID. Back in their home country, in the ISI climate of the 1950s, the 'Chicago Boys' were taunted for claiming neo-liberalism as a neutral framework for any type of decision-making. But they had a mighty godfather in Augustín Edwards - head of Chile's largest conglomerate and owner of a newspaper empire - who used them to diffuse ideas of free enterprise among Chile's inert business community. Only in 1972, after severe traumas, did the Chilean business sector support a restricted, gradualist interpretation of the proposals by the Chicago Boys. At that time, the issue was no longer a specific economic policy but rather the principle of having a market economy (Valdés, 1995).

Though incompatible with their Portalian notion of a strong state, the armed forces liked the neo-liberal agenda because of the shared conviction that politics and organized political lobbies were to be blamed for the country's deplorable state (Kievid, 1993). The military first decreed a gradualist approach to economic liberalization, but in April 1975 came down decisively in favor of radical neo-liberalism (Collier and Sater, 1996). Behind this decision lay the increased economic power of the Monday Club members - i.e. Edwards, BHC and other liquid-asset conglomerates who had profited most from the

post-coup privatization wave (Silva, 1996). In the mean time, hard-line Chicago Boys gradually climbed up the state hierarchy, as many Christian-Democratic economists conditioned their collaboration to respect for human rights and thus choose to resign. The economic project of the Chicago Boys and the political project of Pinochet reinforced each other. They shared the ambition to radically transform Chilean society, and free it from interference by the state and political lobby groups. While the Chicago Boys helped legitimate long-term authoritarian rule, the General provided laboratory conditions for neo-liberal restructuring. Authoritarian hierarchism and radical individualism together constituted a true program to change the Chilean mentality. It was a revolution propagating freedom and equality instead of democracy and justice. Sergio de Castro, Minister of Finance from 1976 to 1982, was a key preacher of the new ideology:

> "A person's actual freedom can only be ensured by an authoritarian regime that exercises power by implementing equal rules for everyone" (cited in Valdés, 1995: 30).

Shock treatment liberalized the economy, linked it to the world market system, and imposed the market as key mechanism for allocation of resources. Public expenditure declined from 40 to 26 percent of GDP. Rapid privatization reduced the number of state companies from 492 to 25 (Montecinos, 1998). A painful first year was followed by what came to be known as 'the Chilean miracle.' Between 1977 and 1981, GDP grew at 8 percent yearly, inflation fell from triple to single digits, the fiscal deficit disappeared, and the balance of payments turned positive. Impressive growth of non-traditional exports reduced the share of copper in total exports from 90 to 50 percent (Loveman, 1988). In three years time, total exports doubled in value (Silva, 1996).

The agro-sector occupied a key role in this miracle. Immediately after the coup, the military embarked on a counter-reform that, in line with general policies, installed individualism at the expense of paternalism. All mediating links between the peasants and the state were destroyed (Kay, 1980). Around one-third of reformed land was returned to its former owners, and half of it parceled out in individual plots of 10 ha (Silva, 1988). By 1980, half of the *parceleros* had lost their lands, since they failed to be competitive without state support (Kay, 1992a). State credits were abolished in 1976 and INDAP dismantled through a 74 percent staff reduction (Jarvis, 1992). The crisis of smallholder farms contrasted with the dynamics of medium and large-scale agriculture, which, after the historic demise of the *hacienda*, was now dominated by export-oriented agribusiness firms and commercial farms. This new agrarian economy derived from the privatization of ISI achievements. Particularly under Frei, decades of state-financed research had materialized in vast investments that founded the agribusiness sector for which Chile is praised internationally today. The Chicago Boys needed no sectoral policies to bring about a miracle in agro-exports - privatization and liberalization were enough to reap the benefits of mature forestry and fruit plantations, and a vast complex of processors, input industries, cold-storage plants, and agencies for marketing, standardization and other services.

But the miracle had an obscure side as well. A quarter of all Chileans worked informally, 36 percent lived in poverty, and the rest became heavily indebted through consumerism (Elena Cruz, 1993). Much of Chile's growth was recovery from crisis or financial speculation. But not even the business peak associations were heard when they warned that shock treatment would lead to a dramatic concentration of wealth and to financial speculation at the expense of productive investment (Silva, 1996). Classifying "the formulation of sector demands as an illegitimate act directed against the general interest of the nation" (Silva, 1988: 439), Pinochet had insulated the state from society and made it insensitive to the social costs of radical neo-liberalism. Interest mediation occurred no longer through organized groups but through personal ties between the Chicago Boys and their previous patrons. A handful of liquid-asset conglomerates enjoyed virtually exclusive access to policy-making, interacting with a narrow band of technocrats, many of whom they once employed (Valdés, 1995). Edwards, BHC and spin-off Cruzat-Larraín came to control 60 percent of all exports, 40 percent of the largest 250 firms, and 46 percent of all banking assets (Loveman, 1988).

Riding on the waves of consumerism, the military gained popular ratification for a new constitution in 1980, which provided for a transition to 'protected democracy.' Pinochet would remain president until 1988, after which a plebiscite would either give him another 8-year term or call to democratic elections. The democracy to which the country might return, entails great presidential authority, permanent militarization, minimum scope for an entrepreneurial state, and a conservative bias in politics through the nomination of one-third of the senate by the national security council (Loveman, 1988). Pinochet's regime of authoritarian neo-liberalism was further instituted through 'seven modernizations' in different areas of society. Primary schools now promoted love of God, Fatherland and Family, while universities became "factories turning out professionals" (Valdés, 1995: 34). The pension funds, within two months of their introduction, were 71 percent controlled by BHC and Cruzat-Larraín (Kievid, 1993). The labor plan dismantled the unions by eliminating the right to negotiation beyond the level of individual companies (Silva, 1988).

Enjoying the best of its days, Pinochet's regime became overconfident and failed to respond to the contracting world economy in the early 1980s. The impact would not have been so devastating had Chile's growth not been so much based on speculation by a tiny elite. While the government stubbornly refused to protect the economy, slackening demand for Chilean exports and a 40 percent drop in copper prices were enough to cause a financial implosion and a near complete collapse of the economy. Chile's largest conglomerates, BHC and Cruzat-Larraín, went bankrupt in 1981. GDP fell by 14 percent, and unemployment rose to 29 percent (Collier and Sater, 1996). The crisis induced the first serious protests against the military regime, mobilized by the unions. A decade after the protests against Allende, the people once again occupied the streets, hitting empty pans to express their hunger. Despite ten years of brutal depolitization, the three political blocks characteristic of Chile since the 1930s re-emerged (Loveman, 1988). A political

Center now conducted open opposition, avoiding any linkage to the Left, seeking instead an alliance with business sectors. But the latter remained loyal to the military government, even though the crisis had set them against radical neo-liberalism. Threatened by the possibility of multi-class opposition, Pinochet gave in, expelled the Chicago Boys from government, and reformed the policy-making process. The business peak associations once again enjoyed privileged access, together with fixed-assets conglomerates such as Matte, Angelini and Lúksic, which now came to dominate the economy (Silva, 1996).

Second-generation Chicago Boys took over government technocratic functions, and embarked on what was ridiculed as the 'Chicago road to socialism.' Taking an 80 percent control of the financial sector, the government reduced the private foreign debt through an innovative debt-equity conversion scheme. Being offered bankrupt companies at subsidized prices, transnational corporations massively invaded the Chilean economy (CEPAL, 1992a). The New Chicago Boys implemented an intelligent mix of export promotion and limited protection of domestic sectors (Valdés, 1995). This produced a second Chilean miracle - in the next four years, GDP grew at 5.5 percent a year, total exports doubled in value, and unemployment dropped to 7 percent (Silva, 1996). But the economy became badly skewed. In 1988, almost one-third of the population worked informally, real wages remained below their 1970 level, and poverty reached 49.7 percent of all Chileans. The poorest quintile enjoyed 4.2 percent of GDP and the richest 60.4 percent (Kievid, 1993).

Agriculture was in no way an exception. The export sector, composed of medium-sized farmers, featured sensational growth. Agro-forestry exports came to represent one-third of total exports - their overall growth under Pinochet was from 250 to 2,000 million US dollars (Hojman, 1993). But the sector was strongly concentrated - five export firms controlled three-quarters of all forestry exports, and twelve firms accounted for three-quarters of all fruit exports (Elena Cruz, 1993). Domestic agriculture, the domain of smallholders, stagnated. Despite price bands and technical support, the overall performance of Chile's basic foodstuffs under neo-liberalism was zero growth (Kay, 2002). In the late 1980s, one-third of Chile's 250,000 smallholders was surviving by producing under contract (Faiguenbaum, 1992). Another 20,000 was making ends meet by receiving credit and technical assistance from INDAP (Scott, 1993). The remaining 150,000 relied on poverty alleviation programs of NGO's, which with 800 employees had the same manpower as INDAP itself (Berdegue, 1993).

Despite massive poverty and dramatic inequalities, General Pinochet remained firmly in power. Change had to come from within. For the 1988 plebiscite, the PDC, Socialists and Radicals campaigned on a 'Concerted for No' platform - in Spanish *la Concertación* - and won the vote by fifty-four percent. Pinochet was furious but no longer in control. During his last year of governance, the military, *Concertación* and peak associations negotiated a transition to democracy. *Concertación* committed itself to respect the neo-liberal model, the autonomy of the armed forces, and privileged access to policy-making by organized business. It won the elections with 55 percent of all votes. Christian-Democrat Patricio Aylwin became Chile's first democratically elected president following 17 years of authoritarianism.

Pinochet fulfilled his promise and indeed had changed the Chilean mentality. He had crushed the paternal state and successfully imposed the market as key mechanism for allocation of resources. The economy was fully integrated into the world market, and businessmen had acquired status as the cutting edge of society. Women massively participated in the labor market (Hojman, 1999). Agriculture embodied modernity and entrepreneurship where before it represented tradition and backwardness. Most unexpected was the spectacular entry of Pentecostal Protestantism, reaching one-fifth of all Chileans, at the expense of the Masonic, freethinking component of Chilean culture (Collier and Sater, 1996). But did authoritarian neo-liberalism eliminate the old patron-client coalition of hierarchism and fatalism? For sure aspects of patriarchal state practice persisted. Pinochet relied upon patrimonial strategies of statesman as much as Chile's first president Portales, and recruitment into the state remained based on personalism. Fatalism continued as well. Poverty extended to more than two-fifth of all Chileans, while the economy continued to manifest coercion of labor, concentration of wealth, and exclusionary collusion between state and business elites. Authoritarian hierarchism had successfully allied itself with neo-liberal individualism to produce a new viable societal order. This was achieved at the price of weaving patron-client institutionality into the topmost spheres of regime performance. The Chicago Boys and their successors regulated the economy through technocratic neo-liberal principles, but were themselves selected and promoted by a Patron above politics.

3.7. Modern democratic Chile (1990 - 2005)

Under the credo 'growth with equity,' three successive *Concertación* governments have consolidated the neo-liberal societal order, while paying increased attention to poverty alleviation, education, health care, and social security. This new combination of neo-liberalism, democracy, and a slimmed-down, redistributive state brought Chile strong growth and an international reputation as the economic 'jaguar' of Latin America. During the 1990s, GDP grew by 8 percent a year and total exports doubled, while foreign direct investment tripled and inflation stabilized well below 5 percent (World Bank, 2003). Average household expenditure increased by 170 percent (Halpern, 2002). In all world rankings, such as those for competitiveness, anti-corruption and credit rating, Chile has constantly been number one of all Latin American nations and among the top five of all emerging economies (World Economic Forum, 2003; Transparency International, 2003). While macro-economic equilibrium was maintained, poverty declined from 40 percent of all Chileans in 1989, to 17 percent in 1998 (World Bank, 2001).

But the inequalities between rich and poor deepened. The differences in income of the top and bottom quintiles grew from 14 to 15.3 times (Berdegué, 2001). At the turn of the century, Chile ranked among the world's ten most unequal countries and its elites among the world's top three rich - after the Swiss and American elites (Sutcliffe, 2002). The conglomerates expanded their grip upon the economy at the expense of small and medium businesses. The assets of the six largest groups grew from an equivalent of 54.2 percent of GDP to 55.8 percent, while small and medium businessmen, who generate nine-tenths of all employment, saw their share of GDP decline from 28 to 20.4 percent (INE-CORFO, 2001). The informal economy officially covers 19.8 percent of the total economy, but that figure may be as misleading as the official unemployment rate of 8.5 percent, in which any person who has worked one hour during the previous week is considered employed. Even Chile's unique selling point, the drastic reduction of poverty, looks less good when compared to figures for 1970, when 17 percent of all Chileans was poor - the same figure as today. Then, poverty was synonymous with rural landlessness. Today

> "...the masses of Chile's poor are no longer 'marginal' to the national economy, but central to the working of the country's free-market economic model. They are low-paid, temporary workers in the formal sector of the economy" (Rosenfeld and Marre, 1997).

Massive poverty and sharp inequalities are no remnants of the past but lie at the core of Chilean modernity. In spite of its new democratic and social guise, the Chilean society still displays the basic outlines of the patriarchal order instituted by the military regime. Fear of a return to the past and built-in institutional constraints have made pragmatic continuity the hallmark of the first *Concertación* administrations (Silva, 2002). President Patricio Aylwin and his successor Eduardo Frei Jr. - both Christian-Democrats - made no significant changes to the 1980 constitution, or to any other of Pinochet's legal legacies. Real reform was nearly impossible, because the armed forces preserved their autonomy *vis-à-vis* presidential and judiciary authority, and did not eschew to organize trainings in the center of Santiago at times of political tension. Moreover, right-wing parties devoted to defending Pinochet's legacies still held veto power in the legislative by virtue of these legacies. Due to the constitution which protects nominated senators, and supported by more than 40 percent of the population, the Right dominates Chile's political system without controlling the government.

Pinochet's 'reconstruction of the country' instituted right-wing conservatism as a dominant force in Chilean polity and society. With 89 percent of all Chileans claiming to be Catholic (CIA, 2005), Chilean conservatism fuses Hayekian neo-liberalism with Catholicism, preaching total liberty in the economic sphere, but hierarchy and tradition in socio-cultural life (Cristi, 2000; Larraín, 2002). Some ideological counterbalance is accounted for by Pentecostalism - preaching personal development and liberation from patrimonial values (cf. van Dijk, 2002) - but this religion reaches only 11 percent of the

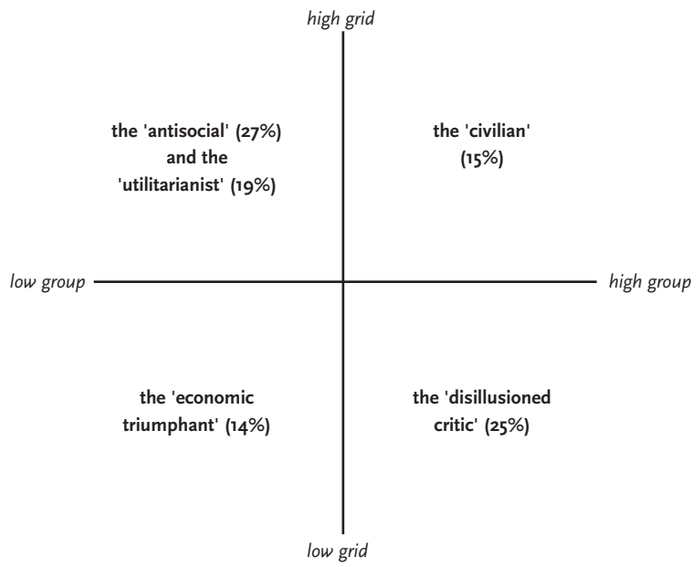
population. The conservatism that dominates modern Chile is similar to the fusion of neo-liberal and Christian values that came to dominate the USA and many other parts of the non-Islamic world after '9/11' - a political culture which is individualistic in economic issues but hierarchical in moral issues.

However, in recent years there seems to be political and cultural change in Chile suggesting the break-down of patrimonial values. One of the triggering events was the arrest of Pinochet in London in 1998, which turned the General into an irrelevant figure. Once back home, he lost his seat-for-life in the Senate, was declared demented, and has been facing more than a thousand charges for murder and torture. The recent revelation that Pinochet and his family possessed 128 bank accounts in the USA with funds totaling almost 19 million dollars, undermined his claim to have been a disinterested patriarch (The Economist, 31-03-2005). Due to these developments, the Chilean New Right felt forced to abandon its devotion of the General, and provide room for reform of the country. The government of president Ricardo Lagos - a Socialist - skillfully used this room-for-manoeuvre to settle the past, deepen Chilean democracy, and modernize society. Lagos commissioned a renewed inquiry into human right violations, which finally brought justice to the victims of the dictatorship - more than 300 retired officers, including 21 Generals, are now in jail or facing charges. For the first time, the army as an institution admitted and apologized for abuses previously blamed on individual officers (ibid.). The authoritarian enclaves in the constitution are also being swept away. This year, a large majority in Congress and Senate is likely to amend the constitution to put an end to the nomination of senators, and to place the armed forces back under presidential authority. Other indicators of the fresh wind that blows over Chile are the approval of a divorce law at the end of 2004 - as last country in the Americas -, and the abolishment of the death penalty. On top of all this, the presidential elections in December 2005 are likely to turn Chile into the first country in the Americas with a female president (Elsevier, 02-04-2005).

While these changes suggest an emancipation from patriarchal traditions, fatalism remains widespread in Chilean society. In the Global Value Survey of 2000, only one-third of all Chileans claimed to believe that success was related to personal effort (Larraín, 2002). According to the United Nations Human Development Report of 2002, 74 percent of all Chileans had negative feelings, such as anger and loss, towards the economic system, while 57 percent considered themselves straight losers (UNDP, 2002). The UNDP report constructs five groups of 'imageries' that together define the cultural map of contemporary Chile. Figure 3.1 plots these five ways of life against a grid-group matrix (instead of the original dimensions that run from 'winner' to 'loser' and from 'socially incorporated' to 'withdrawn'). It shows that no less than 71 percent of all Chileans feel dissociated from society and have retired into either fatalism or sectarianism. This massive aversion to Chilean modernity may stem from the decay of clientelism in a modern, impersonal free-market democracy, which would suggest that the Chilean masses are fatalists longing for a patron rather than emancipated civilians.

True, in modern Chile, even the poor vote, go to school, enjoy Coca-Cola, and watch television. But job insecurity, indebtedness, and a lack of perspectives induce the majority of the Chileans to a day-to-day life approach. An ordinary Chilean possesses around ten credit cards, and warehouses rank among the country's largest credit extenders - even shoes are bought on installment. But no matter how tight the budget, some money is always found to play the lottery. For God's ways to the fatalist are mysterious.

Figure 3.1: Five 'ways of life' in contemporary Chile



Source: Elaborated by the author on the basis of UNDP, 2002

Considering this cultural map, it is no wonder that most Chileans claim to abhor politics and politicians - only 45 percent of all Chileans are committed to democracy (UNDP, 2002; see also Barton, 2002). Sixty-three percent believe that those in power take unfair advantage of their position, 65 percent feel disregarded by the political system, and 37 percent feel marginalized by it (UNDP, 2002). This aversion stems, in my view, from the reduced scope for political patronage in the context of neo-liberal politics. It seems that the Chileans still expect to receive particularistic benefits in exchange for electoral support. However, a slimmed-down, neo-liberal state has few resources to divide, and is, therefore, prone to disappoint its clientele. Elections are populist campaigns pivoting upon the charisma of the presidential candidates, who travel throughout the country promising to bring high-speed train connections, hospitals and other political prizes that others have failed to deliver. Local politicians seek every opportunity to be photographed shaking hands with the presidential candidates, thus suggesting they are well enough

connected to deliver on their promises. Many Chileans thus vote candidates into Congress and Senate not to act as legislators but as brokers of local interests. The system is kept together through the extraordinary concentration of power in the hands of the president, who personally appoints the members of his cabinet, and directly designates 3,500 positions across the state bureaucracy to make it responsive to his command. "He who wins the elections gains the authority to govern the country as he esteems appropriate. The president is the incarnation of the nation, and the arbiter of the national interest, as defined by himself" (Barrera, 1996: 80; my translation).

Civil society is fully drawn into this ritual performance of patron-client politics. The state is surrounded by an extensive web of 'consultancy agencies' which capture large amounts of public resources to do the work that a neo-liberal state may no longer do. Personal relations and double appointments blur the distinction between corruption and routine administration. A change of government not only triggers a flux of personnel in the state bureaucracy, but also in universities, media, cultural centers and NGOs (Larraín, 2002). Personal acquaintance - *pituto,* one of the key words of Chilean slang - is required for recruitment into this semi-public sector. President Lagos has promulgated measures to open up competition in recruitment and public tenders - but social practices are not easy to change, as Chapter Six will show for the field of rural development.

Also the free-market economy continues to manifest old patrimonial habits. Never before was the economy so strongly dominated by a small number of conglomerates (Martínez and Díaz, 1996). The six largest groups account for 55.8 percent of GDP (INE-CORFO, 2001). Small and medium businesses - which account for 20.4 percent of GDP but generate nine-tenths of national employment - have been integrated into supply chains steered by large subsidiaries of the conglomerates. But these networks developed in their poorest variant. "The subcontracted firms produce low-value goods and services... Market information and inter-firm cooperation are scarce, and relations with contractors asymmetrical" (Díaz, 1996; my translation).

The patrimonial structure of Chile's free-market economy is clearest in agriculture, where only five of seventeen key product sectors feature a competitive market structure (Vargas and Foster, 2000). Field observations and interviews with managers suggest that many agri-food supply chains, both domestic and export-oriented, display the same patriarchal chain relations as the tomato industry. This is confirmed by comprehensive studies conducted by FAO and CEPAL - the United Nations Economic Commission for Latin America and the Caribbean (e.g. CEPAL, 1991; 1992b). Their most recent study holds that "the relation between agricultural producers and buyers is often of a patron-client type, featuring loyalties and subordination that go far beyond a strictly productive relationship" (Schejtman, 1998: 63; my translation). It seems that modern agribusiness have replaced rather than displaced the landlords, and have assumed the role of patron towards smallholder farmers. This explains, in my view, to a large degree the success of Chile's booming agro-exports. The secret behind the 'Chilean miracle' is not only the liberalization of markets, as local policy-makers emphasize, or the previous investments under the administrations of Frei and Allende, as critical scholars like to point out (e.g.

Kay and Silva, 1992). The Chilean miracle is, I argue, also based on the persistence of patron-client relations in modern, export-oriented agri-food chains. Paternalistic supply chain management allowed for the incorporation of thousands of relatively unskilled smallholder farmers into high-value export business - farmers who otherwise would be producing low-value crops for a stagnated domestic market.

The persistence of patron-client relations in the micro-economy hampers horizontal cooperation at higher institutional levels and, consequently, the construction of a neutral framework for economic transactions. Chile's gradual fall on global competitiveness rankings - from 18 in 1997 to 29 in 2003 - has been widely attributed to the absence of a 'climate of collaboration' in the country (El Metropolitano, 2003). Chile's business community, though well organized, appears to become paralyzed when sector-wide agreement is required. For instance, a proposal to set up a national quality certification scheme for fresh fruit exports, not the least important sector in the national economy, was started in 1994 but has still reached no consensus. Also in the domestic market, quality standards for fruits are highly elastic. Whether in a modern supermarket or on the traditional open market, widely divergent grades of fruits are gathered into single piles. A satisfactory purchase requires either careful personal selection or becoming the valued client of a specific merchant. Other transactions in informal sectors, such as motor mechanics, but also in strongly regulated ones, such as telecoms, require similar procurement strategies, for the Chilean consumer is overly unprotected. According to Chilean consumer law, companies are liable only for claims made by their owner or top managers - in other words, salesmen and pamphlets are not to be trusted. The rule of the thumb is not to rely on official norms and standards, but to know a well-placed person through whom redemption can be enforced. Institutional distrust thus emerges as the most effective livelihood strategy - in the UNDP survey, 69 percent of all Chileans claimed that they had no trust in what other people say (UNDP, 2002). In world-wide social capital surveys, Chile's trust index is relatively low. Only 17 percent of all Chileans responded confirmative to the question 'Can people be trusted?' - against 38 percent in Spain, 37 percent in Hungary, or 27 percent in the Philippines (Hojman and Perez, 2005).

A last area where patron-client organization persists is in working relations within the firm. The dominant management model in Chilean companies is neo-Taylorism, in which continuous working processes are cut into routine tasks assigned as full-time jobs to individual employees (Martínez and Díaz, 1996). This Taylorist work organization is not meant to enable industrial mass production - as Taylor himself had designed it - but to facilitate hierarchical control. In many companies, large or small, multiple handoffs are introduced to allow repeated checks and controls. For instance, the purchase of a simple item, such as a photographic roll, involves a complex transaction among four persons - i.e. the consumer, a pretty salesgirl, a wrinkled cashier, and a young fellow handing over the product. In this managerial model, work tend to become monotonous, boss-employee relations are hierarchical and control-driven, and employment conditions are generally precarious. This is compensated for by collegial intimacy, and the explicit

notion that the company bears a responsibility beyond the task in hand - i.e. the Chilean firm is simultaneously “a working environment and a social community” (Rodríguez et al., 1999). Chapter Seven provides actual case studies of Taylorism and paternalism at work in Chilean firms.

All in all, the point is that Chilean modernity is still highly hierarchical, personalistic, and fatalistic. The modern free-market democracy preserves many features of Chile's prototype of social coordination - i.e. the coalition of paternalistic hierarchy and clientelistic fatalism. The 'jaguar' of Latin America, a nation that likes to see itself standing on the porch of the First World, is also a traditional, stratified society in which conservative elites rule over fatalistic masses. Seemingly longing for a strong patron, a majority of Chileans dislikes the impersonal free-market democracy for its failure to provide enough welfare, hope and protection. Widespread distrust, improvised 'short-termism' and humorous resignation are some of the ways how the Chileans deal with this - as any foreign visitor may confirm. The culture and logic of patronage continue to shape the behavior of Chileans in areas such as the shop floor, the free market, the polling-booth and civil society. Personal acquaintance remains a key strategy to obtain services from the state and in the market, and daily problems are often not solved through formal institutions, but through dyadic exchange relationships.

Neo-liberal individualism has radically transformed Chilean society, but patron-client organization continues to absorb and give a particular style to the new. Modern patronage is diffuse and incomparable to traditional landlord-tenant relations, as it is no longer carried by a 'total institution' like the *hacienda*. Nor does it resemble party-directed political patronage, since a neo-liberal state has too few resources to distribute. It could even be argued that modern Chile has reached a tipping point, from where the culture of paternalism will slowly fade away, as the country is undergoing sweeping changes and a breakdown of patrimonial traditions. Perhaps future generations will live in a Chile where inequality and distrust are less pronounced, where formal institutional systems work equally for everybody, and where deviant behavior - e.g. homosexuality - is more easily tolerated. But that remains to be seen. So far, patrimonialism has survived four-and-a-half centuries of development and change in Chile. It may thus well remain viable 'institutionality' in future Chile.

Introduced by the Spaniards in the sixteenth century, patrimonialism has shaped Chile's development from a peripheral colony into a modern, free-market democracy. Twice it was in deep crisis - in 1924 and 1973 - but it revived through a brutal patrimonial regime installed by a military coup (both times on September 11th). Patrimonialism comes at the cost of sharp inequalities, marginalization of the masses, and periodic repression. But Chilean elites have managed to keep it alive with financial resources from nitrate, copper and agro-exports, 'stick and carrot' leadership, and 'divide and rule' incentive systems. It is also sustained by a comprehensive worldview, which founds patron-client organization in reason and nature. This worldview - the collective product of a national moral debate on Chilean culture and mentality - mobilizes the commitment

of the masses to the patrimonial society by creating a fatalistic self-perception of 'Chilean idiosyncrasy.' The next chapter will show how this debate - by providing open room for critique and resistance - brilliantly encapsulates and neutralizes forces that might otherwise threaten the endurance of patrimonialism as 'Chilean institutionality.'

Chapter 4 The cultural reproduction of clientelism in Chile

4.1. Introduction

The previous chapter showed how 'patron-client institutionality' kept pace with Chile's development from a peripheral colony into a modern democratic nation. This appeared from the continuous manifestation of its organizational and cultural features, such as strong hierarchy, paternalistic leadership, weak horizontal organization, personalized resource allocation, institutional distrust, and widespread fatalism.

An institutional culture that endures four-and-a-half centuries is a phenomenon clamoring for explanation. All the more because the system seems so unfair in the eyes of many European observers. Featuring sharp inequalities, authoritarian leadership and arbitrary regulation, patron-client organization violates fundamental principles of European society, like democracy and equality before law. On top of this, the patron-client system runs into contradictions when applied in a competitive market setting - e.g. generating inefficiencies in the tomato chain. These are enough reasons for a European to believe that patron-client organization is untenable in a modern society like Chile.

Why, from all possible management models, do the Chileans continue to choose patron-client relations for organizing their society? Why do they continue to do so in a global market setting? Why do Chileans go along with patrimonialism, and how do they legitimate the system? In what ways is resistance and challenge mounted, and how does the system deflect such resistance? Addressing these and other questions, this chapter seeks to explain how patron-client institutionality is both challenged and reproduced in Chile.

4.2. From 'Chilean idiosyncrasy' to 'Chilean institutionality'

Proposing that patron-client organization is 'Chilean institutionality,' this dissertation links up to a long and rich Chilean tradition. For the Chilean people love to contemplate their way of being, their 'idiosyncrasy', culture, identity, race, soul, and mentality:

> "The theme of the national character, its definition and its criticism, runs across the entire intellectual history of Chile" (Godoy, 1977: 436; my translation).

In academic and popular media, in arts and daily life, the Chilean people sustain an intense debate on the pro's and contra's of their national idiosyncrasy. Ordinary street conversations about soccer or politics inevitably end up invoking propositions about the

national character. When asked why things are the way they are people come up with a contemplation upon the national idiosyncrasy. A longstanding tradition among both domestic and foreign scholars, systematic reflection on the Chilean idiosyncrasy has produced a pile of essays. These begin with writings by Diego de Almagro (discoverer of Chile) and Pedro de Valdivia (conqueror of Chile), and continue via Charles Darwin, who developed his theory of evolution during a trip in 1835 to Southern Chile.

The supposed source of this identifiable national idiosyncrasy is Chile's position as *finis terrae* (San Martín, 1970; Godoy, 1977). Like Japan, another nation with a very specific way of being, Chile has an insular character, bordered as it is by the Pacific Ocean, the Atacama desert, and the Andes mountains. Other facts eagerly invoked to support the idea of Chile's singularity - read: superiority - within the Latin-American context include: successful Auracanian resistance to the Spaniards, the country's ethnic homogeneity, the early consolidation of independent governance, and an unbeaten record of political stability (Godoy, 1977). A last fact, curiously enough omitted by Chilean writers, is that linguists consider Chilean Spanish to be the only single-district dialect in Spanish-America. All other variants of Latin-Spanish extend across several countries. The latter argument, in contrast to the former, seems meaningful as language is a core element of culture.

The longstanding concern for the Chilean idiosyncrasy would of course not exist unless inspired by the experience of a problem. For some Chileans the national character is a problem, for others betrayal of it is the problem. Many Chileans explain national problems like poverty and fraud, for instance, by arguing that Chileans are a lamentable mixture of the ignorance of Indians and the corruption of Spaniards. Others explain the same problems by claiming that traditional Chilean solidarity was destroyed under Pinochet's dictatorship and through the imposition of neo-liberalism. Jorge Larraín shows in *Identidad chilena* (2002) that the Chilean people have always perceived modernity as being opposed to national identity. Modernity - defined as the combination of democracy and capitalism - is perceived

> "...as an eminently European phenomenon. It is supposed to be totally alien to Chile and can only exist in conflict with our true identity. Some oppose it for this reason; others want to impose it in spite of this reason. The former believe that modernity cannot succeed in Chile; the latter believe that Chile's identity has to be dismantled" (Larraín, 2002: 78; my translation).

Larraín shows that the choice for modernity prevails in periods of economic expansion, and the appeal to national identity in times of crisis. Along with other scholars, he interprets this dialectic as a problem of cultural identity. The Chileans are considered to suffer from an 'alienated' or 'unresolved' identity, like many other Latin-American peoples (e.g. Morandé, 1984; Montt, 1984; Rodríguez et al., 1999).

This idea of a definable Chilean idiosyncrasy, alienated or not, is highly problematic. Some scholars, aware of the theoretical issues involved, warn against essentialism and

reification (e.g. Larraín, 2002; Rodríguez et al., 1999). They point to the inconsistencies and the changing nature of culture, as well as to the social embeddedness of cultural identities. Despite these attenuations, their work also attempts to grasp a national mentality. Such a venture is predestined to failure. First, this is because the use of psychological concepts in social analysis produces explanations that "just say again the thing that is being wondered at" (Douglas, 1992: 167). It is tautological to explain, for instance, Chile's political stability by reference to a Chilean 'need for order.' To prevent such circular arguments, Emile Durkheim established the principle that

> "...social facts must be explained by social facts. Dipping at will into the psychological level was precisely what Durkheim's methods aimed to stop" (Douglas, 1986: 34-5).

A second problem is that national cultures do not exist in the material sense of the word - i.e. out there in the real world. What might be observed 'out there' are manifestations of culture, such as costume, ceremonies, forms of salutation, etc. It is incorrect to gather a set of such manifestations and claim that represents the culture of the people in a given territory. Such sets are inevitably non-exhaustive and non-exclusive, hence analytically meaningless. More importantly, they confuse material and conceptual reality. Culture is a 'grammatical' discovery - it explains cultural manifestations by drawing conceptual links that are not 'real' but may be 'true' (cf. Wittgenstein, in Monk, 1990). It thus is impossible to grasp and define a national culture as if it were a material phenomenon.

The closest we may get to grasping a culture is, in my view, the approach taken by grid-group theory (GGT), namely, to see culture as intrinsically related to institutional environments. GGT holds that culture does not exist separately from organization - they are indissolubly bound facts of social life. By grasping the organization, a relatively tangible thing, we may grasp the culture as well. This approach gives a new, meaningful interpretation to the idiosyncrasy debate. It makes clear that the concept of Chilean idiosyncrasy addresses social rather than psychological life. While the Chileans are seemingly debating their national mentality, the actual topic being discussed is Chilean society. The idiosyncrasy debate is a normative debate about how Chilean society is and ought to be. It is a debate about cultural biases that support, resist, and criticize 'Chilean institutionality.'

This will appear hereafter in a review of the idiosyncrasy debate. Opinions are reproduced at face value and may violate the epistemological principles spelled out earlier. Two leading threads in the debate are distinguished - the problem of political order, and that of economic development.

4.3. The debate on order versus anarchy (the *huaso* versus the *roto*)

The *huaso* and the *roto* are Chile's main cultural stereotypes. They symbolize national

history and identity. The *huaso* - literally: the cowboy - comes in two versions. One is the tenant peasant, barefoot or in crude sandals, wearing an apron or flour sack, who walks with a bowed head, eyes toward the ground, hat held over the genital area. The other is the landlord dressed for *rodeo*, with a three-colored mantra and a sash around his waist, on a strong well-kept horse, chin up, eyes fixed on the horizon. The *roto* - literally: the broken one - is the peasant's urban counterpart; he is the worker, strong, courageous, persistent, quick to take advantage of a favorable opportunity. But he also is the broken one, the one who lives in misery, fatalism and opportunism (Loveman, 1988).

Together, the *huaso* and the *roto* are the story of Chile. They denote power, leisure and privilege to the upper class, and hard work, sacrifice and struggle to the people. The *huaso* represents Chile's exceptional order and stability, provided for by authoritarian rule, patriarchal relations and social stratification. The *roto* expresses the suffering and the resistance of the masses, and the regular irruptions of anarchistic revolt against oligarchic dominance. Where the *huaso* represents the 'regulating force' of the Chilean character - its gray, bureaucratic and conformist tendency - the *roto* represents the 'driving impulse' of the Chilean, his adventurous, opportunistic and anarchistic spirit (cf. Godoy, 1977; Loveman, 1988).

The *huaso* and *roto* are invoked by Hernán Godoy in the concluding remarks of a large volume that gathers all key contributions to the debate on Chilean idiosyncrasy (Godoy, 1977). In his attempt to synthesize that debate, Godoy distinguishes an 'active' and a 'passive' pole in the Chilean psychology, a 'driving impulse' and a 'regulating force' that dialectically make up the Chilean character:

> "The active pole of the Chilean character can be expressed as the 'will to be' and its passive pole as 'the aspiration for order'... When the 'will to be' dominates, there will be eruptions of action and impetuosity, the adventurous type comes to the surface, the *roto* imposes himself. The active pole of the Chilean character rules and, without counterbalance, tends to fall into anarchy. When, on the contrary, the 'aspiration for order' dominates, action is suffocated by bureaucratic administration, the *huaso* imposes himself, the gray syndrome of the Chilean character rules and, without its active counterbalance, tends to generate the 'weight of the night'" (1977: 448; my translation).

With these last words, Godoy refers to the teachings of Diego Portales, the founding father of the Republic of Chile. Though not much of a writer, Portales left a few phrases that were to be quoted by many future dictators, patriarchs and conservative thinkers:

> "Democracy, fiercely proclaimed by dreamers, is an absurdity in the countries of Latin America, which are full of vices and whose citizens lack all virtue... The Republic is the system we need to adopt, but do you know how I think it ought to be for our countries? A strong, centralized government, whose men are true models of virtue and patriotism, so as to straighten out the citizens on the road of order and virtue. Once they have been moralized, then comes the government which is completely liberal, free and full of ideals, in which all citizens participate" (cited in Peralta, 1966: 134; my translation).

For straightening out the citizens of Chile, Portales came up with the 'stick and carrot.' The stick is the punishment for disobedient individuals, and the carrot the reward for

exemplary citizens. When stick and carrot no longer suffice - i.e. in the case of massive revolt - the statesman reverted to the 'weight of the night' - i.e. merciless demonstration of power. A recurrent drama in Chilean history, the 'weight of the night' came to be feared as the dark side of the *huaso* - as the cruel, violent, inhuman aspect of paternalistic rule. However, as it was a reaction to anarchistic outbursts, open resistance came to be feared as well. By consequence, not only the authoritarian leader is a *huaso*. There is a bit of *huaso* in every Chilean, crying for strict rules, firm leadership, central order and absolute discipline. For "even an oppressive and unjust order is better than none" (Genovese, 1972: 115).

The *huaso* sheds interesting light on Chilean politics. It clarifies why Pinochet, in spite of his brutal regime, enjoyed vast popular support - he reestablished law and order after the chaos of Allende's government. Another General receiving massive gratitude, Carlos Ibañez, was elected president in 1952, two decades after having headed an authoritarian regime. Apparently, many Chileans esteem order so much that they are relatively indifferent to freedom, democracy, and human rights. As stated earlier, the UNDP reports that only 45 percent of all Chileans are committed to democracy (UNDP, 2002). 'Obsession for order and fear for chaos' (ibid.) appear to have accompanied the Chileans from the very start of their nation - at least that is how they themselves like to explain their country's early consolidation of government and unique political stability (e.g. Edwards, 1943; Eyzaguirre, 1965). Nourishing feelings of national superiority, these facts inspired the self-awarded nickname 'the English of the Pacific.' The country still enjoys using this comparison, as appears from its contribution to the World Exposition in Seville in 1992. Chile sent an iceberg, so as to express its different nature, when compared to the 'tropical' nations of Latin-America (Subercaseaux, 1996).

Indeed, the widest consensus in the debate on Chilean idiosyncrasy is the claim that Chileans want order, unity, strict rules, and absolute values. Charles Darwin observed in 1835 that the Chileans have "great sensitivity for inequality and respect for hierarchy" (cited in Montt, 1984: 111). Perez Rosales asserted in 1859 that the "Chilean is conservative, timid, and possesses great spirit for order" (ibid.). In *Raza Chilena* (1904), Nicolas Palacios underlined the Chilean's "sense of hierarchy and disposition for social subordination." In 1943, Alberto Edwards extolled the "absolute and unconditional submission of the people" (p. 175). The most quoted expression is from the account of Venezuelan Mariano Picón Salas:

> "Chile or the aspiration for order, is the expressive subtitle that should be given to the book that narrates the civilizing trajectory of the Chilean nation" (1953: 1; my translation).

In the debate on Chilean idiosyncrasy, this 'aspiration for order' is associated with a series of other presumed Chilean features, such as conformism, classicism, legalism, depersonalization, and hypocrisy. Pablo Huneeus describes it as "the somber sternness of the upper class," "the tired conformism of the middle class" and "the sad resignation of the poor" (1968: 543). Hernán San Martín expresses it as the "glorification of

seriousness and formalism" and "a deep respect of the established norm, even when it is bad or outdated." He asserts Chileans suffer from "fear for the self," "strong classicistic individualism," and "extreme reservation and distrust" (1970: 18-23). Maria Montt claims Chileans are "glued to order," intolerant and conservative (1984: 196). Godoy synthesizes the 'passive pole' of the Chilean as conformism, moderateness and soberness, bureaucratism, legalism and hypocrisy, inhibition, frustration and a low self-esteem, and a lack of imagination, originality and perseverance (1977).

Contemporary scholars continue to confirm, without exception, the Chilean urge for order and hierarchy. Rodríguez et al. write that the Chilean "searches for strict formal rules and absolute values" (1999: 229). Jorge Larraín (2002) observes that Chileans attach "extraordinary value" to authority. He observes "excessive legalism," "ideological traditionalism," and occulted racism in his country. The UNDP concludes that "the specificity of the Chilean imagery seems to be the glorification of order" (2002: 59). Finally, writing in general about Latin-America, the Chilean scholar Claudio Véliz is certainly referring to his own people when he claims that Latin-Americans

> "...relate everything to a single, central vision, one system less or more coherent or articulate, in terms of which they understand, think and feel - a single, universal, organizing principle in terms of which alone all that they are and say has significance" (1994: 12).

Interestingly, Geert Hofstede's cultural research across the globe confirms the Chilean 'aspiration for order.' His results for Chile show a relatively high value attachment to 'power distance' and to 'uncertainty avoidance' (Table 4.1).

Table 4.1: Value attachment across the world

	Chile	The Netherlands	Latin-America	World average
Power distance (acceptance of inequalities)	63	38	68	52
Uncertainty avoidance (need for rules and absolute values)	86	53	82	64
Masculinity (materialism and egocentrism)	28[1]	14	54	50
Individualism	23	80	25	50

Source: Hofstede (1979)
1 - 'Masculinity' in Chile is low by Latin American and World standards, because Hofstede's survey was conducted during Allende's government, when Chile was involved in a sweeping socialist revolution.

If true, where does this surrender of individual freedom to the dictates of an all-embracing, truth-possessing power come from? Many scholars relate Chile's 'uncertainty avoidance' to indigenous cosmology. In an environment prone to

earthquakes and tsunamis, the indigenous people lived with a constant sense of vulnerability. They were semi-sedentary tribes that were living together in rather loosely organized, dispersed communities (Collier and Sater, 1996). The environment induced in them an attitude of "passive resignation that allowed life to continue under worse conditions than before the disaster" (San Martín, 1970: 22). They developed fatalistic worldviews in which nature is superior to human will, the future uncontrollable, and destiny fixed (e.g. Peralta, 1966; Morandé, 1984). The life of the indigenous turned around the immediate present, in communities governed by strict rules and absolute authority:

> "The Andes civilizations imprinted the ethical base of authoritarian socialism. Strict social control mechanisms attached religious value to collective work, and integrated diverse tribes into an economic system completely controlled by one central authority" (Huneeus, 1979: 29; my translation).

This indigenous way of life, continues the debate, fused violently but smoothly into the order of the colonizers. The worldview of the Castilian Crown emphasized a societal order based on centralism, symmetry and tradition. It was a great order made once and for all. It was immune to later cultural paradigms, such as the Romantics world of diversity, uncertainty and mobility (Véliz, 1994). Inspired by counter-Reformation Catholicism, the Spaniards civilized the colonies into what was perceived as an organic, harmonious order. Individual place and function were ingeniously correlated into an all-embracing, unifying, patriarchal hierarchy, based on and justified by monarchical and religious absolutism (Peralta, 1966; Slicher van Bath, 1981). The people had to obey the Crown whose authority was extended by God, and the Crown had to respect the people whose lives were devoted to God (Larraín, 2002). Though difficult to imagine in our secular age, outside this religious order

> "...a civilized existence was then as unthinkable and as impractical as life outside the national economy would be today... Religion filled the cultural horizon of the Spanish centuries as convincingly as the economy dominates the centuries of the English Industrial Revolution" (Véliz, 1994: 196).

On top of the Spanish world order - continues the idiosyncrasy debate - came centuries of patriarchal rule by an oligarchic upper class holding hegemonic sway over an extremely stratified society (e.g. Medina, 1963; Gissi, 1982). A need for hierarchy was imprinted upon the Chilean through a paternalistic style of leadership. The landlords ruled with stick and carrot, oppressing and protecting, with violence and charity. They disciplined a classicistic, exploitative society in which landownership was the dividing line between the powerful and powerless. A paternalist ideology defined unconditional disposition of the tenant as a legitimate return to the landlord's despotic protection and direction. Subordination of the masses was justified by their need to be commanded and protected, whereas super-ordination of the elite was justified by extreme religious diligence, and a sense of duty and cultural superiority. Similar to the case of slavery in

the southern USA, in Chile a paternalist ideology

> "...developed as a way of mediating irreconcilable class and racial conflicts... It grew out of the necessity to discipline and morally justify a system of exploitation. It did encourage kindness and affection, but it simultaneously encouraged cruelty and hatred... Paternalism afforded a fragile bridge across the intolerable contradictions inherent in a society based on racism (...) and class exploitation" (Genovese, 1972: 4-6).

Paternalist ideology was more than a poor excuse to legitimate exploitation. It was a true, all-encompassing world view interlarded with ideals and sustained by empirical experience. An nice example is the appeal in 1918 by Christian-Democrat Juan Enrique Concha to Chile's upper classes to pay more attention to the 'social question' in order to prevent outbreaks of anarchy. He started his speech observing that:

> "Chile is a truly aristocratic republic... In our country, the high class dominates almost absolutely, due to its enlightenment, fortune and blood. [In our country] true democracy, conscious of its rights and duties, does not exist. We have a people, not a democracy" (Concha, 1918: 307; my translation).

Seeing this as "the natural state of a young nation with scarce enlightenment," Concha claimed that Chile's problems lie in the oligarchy's lack of social commitment. The elite "left the people abandoned to its fate, without maintaining the familiar paternal treatment" (p. 312). He warned his audience that:

> "The worker is no longer that humble, meek, obedient being, conformist, and resigned to his condition. He is changing little by little... Our people is less respectful than the European people. That is a natural thing. The ideas of 'equality' and 'rights of the proletariat' fall here onto crude, unprepared soil. These seeds germinate together with the weeds and bushes of the popular Chilean soul... [That is,] with the false idea that equality is the brother of haughtiness and pride, and that rights are obtained by disdaining obligations and the rights of others" (Concha, 1918: 307-309; my translation).

What Concha feared - "the weeds and bushes of the popular Chilean soul" - was the *roto*, that other cultural stereotype, the counterpart of the *huaso*. The *roto* represents the Chilean masses living on the margin of established society, excluded and marginalized, deprived of the enjoyment of wealth and power. The *roto* embodies Chilean popular culture, the culture of the underdog, which developed in cynical opposition to the fake aristocratic culture of the elites. Upper class culture is a snobbish yet serious imitation of foreign influences - it is a true cultural zoo, possessing at least one specimen of all the fashions associated with power and wealth found in the First World (Véliz, 1994; Larraín, 2002). By contrast, rooted in the reality of misery, Chilean popular culture

> "...has the force of creative imagination that allowed the people to survive under difficult conditions. Its force is the struggle for life..., an impulse at humanizing life in all its aspects, an impulse oriented at an alternative society" (Larraín, 2002: 173-174; my translation).

In the debate on Chilean idiosyncrasy, the *roto* is the 'driving impulse' of the Chilean, his adventurous, energetic and courageous spirit (Godoy, 1977). The *roto* is the Chilean sense of humor. He is Chile's renowned hospitality, generosity, and openness to foreign cultures (Larraín, 2002). He is Chilean friendliness, warmth and affection in human relations (Rodríguez et al., 1999). He is the flattering Chilean, curious, open, friendly, gracious, and concerned with the other (Montt, 1984). He is the traveling Chilean who, no longer depressed by his social environment, awakens to become "joyful, imaginative, passionate, and adventurous" (San Martín, 1970: 24).

So what is to be feared about the *roto*? The *roto* is to be feared because he lives subordinated to the *huaso*, exploited and repressed, in a patriarchal, conservative society. He is to be feared because he is being denied a decent place in society, a proper 'historicity' (Salazar, 1990). No matter how benevolent the landlord, no matter how effective the paternalist ideology, the patrimonial leadership style cannot overcome the fundamental, intolerable injustice of exclusion and subordination. While his master employs stick and carrot to straighten the *roto* out on the road of virtue, every whip of the stick drive the *roto* further and further onto the verge, with an ever deepening sense of injustice. Most of the time, this indignation expresses itself as a passive, suspicious, wait-and-see attitude, or its counterpart, quick, opportunistic petty pilfering. These two features - distrust and opportunism - are recurrent observations in the debate on Chilean idiosyncrasy. Francisco Encino wrote in 1912:

> "Our honesty is still deficient. The moment he is subtracted from control by more civilized and superior social elements, the peasant, loaded with Araucanian blood, descends in morality, culture, and all that is civilization. He becomes a lazy, adventurous thief" (p. 75; my translation).

Famous is Alberto Cabero's essay in 1926 that pictured the *roto* as the 'ethnic base of the Chilean nation:'

> "His character is a confused mix of virtues and defects. He is patriotic and egoistic, hospitable and hostile... [He is] aggressive, religious and fatalistic, even superstitious... [He is] meek, stubborn and inconsistent, open in certain moments, yet almost always distrustful. [He] resigned to his fate, and is violent with the people... His moral is little solid, he lacks a sense of ideals and the intimacy of belief. His respect for law, truth and property is scarce" (p. 319-320; my translation).

Galvarino Guzmán wrote in 1945 that the Chilean

> "...distrusts, slanders and always supposes the worst... Our man is always waiting to be attacked, to be exploited or, what he fears most, to be ridiculed" (p. 334; my translation).

The omnipresence of distrust and fiddling in the Chilean society has not gone unnoticed by contemporary scholars either. Pablo Huneeus (1979) observes a "warriors mentality" among the working class; a sense of being under attack induces them to take justice into their own hands. Maria Montt (1984) notes that Chileans exercise "passive-aggressive

forms of rebellion against the exercise of control by others" (p. 200). Samples of such rebellion are neglect of duty and non-payment. Brian Loveman claims that "systematic evasion of the law" is the norm in Chile (1988: 105). Rodríguez et al. argue Chileans display "strong distrust to all persons that do not belong to the intimate circle" (1999: 233). Finally, Larraín (2002) observes that Chileans are hypocritical and only maintain their status of legalism through a ritualistic adherence to the norm.

Hence, most of the time, the *roto's* sense of injustice gegrades into fatalistic distrust and monkey business. But sometimes, under specific circumstances, his rebellious distrust erupts into wild explosions of blind, anarchistic revolt:

> "Without exit to a historical conscience..., popular historicity has turned in circles around its proper identity, with increasing irascibility. Blind rebellion, banditry, alcoholic addiction and political violence have been frequent expressions of this historic anomaly. Intermittently, it led to mutinous explosions that threatened the stability of the entire system" (Salazar, 1990: 12-13; my translation).

The regime's response to anarchistic outbursts is known - the 'weight of the night.' The chaos in Chile after the demise of the parliamentary republic was ended by the swift yet effective dictatorship of Ibáñez. The chaos that frustrated the Chilean road to socialism was brutally repressed by Chile's longest-standing commander, Augusto Pinochet. Véliz calls these ruthless counter-strikes the 'centralist tradition' of Latin-America:

> "Regardless of the intentions of revolutionaries and reformers, every major reconstruction has resulted in increased central control, and the greater the revolutionary upheaval the more emphatic the centralism of the resulting institutional structure" (1980: 9).

So the circle is rounded. The *roto* and the *huaso* presuppose and create each other. Both were already there when Diego Portales, Simon Bolivar and other 'dictators-liberators' founded the independent republics in Latin-America, and chose to implement autocratic forms of government. In their eyes, patrimonialism was the only way to end the chaos of civil war. The permanent oscillation between anarchy and authoritarianism that has characterized Latin-American politics since then is both reason for, and outcome of, the initial policy models adopted by these great statesmen. It is doubtful indeed whether representative democracy is the most appropriate governance model for a society full of patriarchal *huasos* and unorganized *rotos*. For democracy presupposes a civil society, and faith in impersonal regulation. Peruvian novelist Mario Vargas Llosa questions the moral base for democracy in Latin-America:

> "We have democratic governments, but our institutions, reflexes and mentalities are far from being democratic. They remain populist and oligarchic, absolutist, collectivist and dogmatic, flawed by social and racial prejudices, immensely intolerant towards political adversaries, and devoted to the worst monopoly of all, that of the truth" (cited in Véliz, 1994: 190-1).

Chilean conservative thought, starting with Portales, became particularly strong in the second half of the 20th century. Its arguments against parliamentary democracy cannot

be simply dismissed as stubborn traditionalism (Cristi and Ruiz, 1992). They are well reflected in Ariel Peralta's poetic plead for 'Caesarian democracy:'

> "South-American political history is nothing but a constant battle between the artificial schemes arriving from abroad, and the original force that strives to enroot itself definitively - our tendency toward Caesarism" (1966: 155; my translation).

Due to "congenital anarchism and individualism," Peralta argues, South-Americans tend towards totalitarianism:

> "The *mestizo* is nothing but a dim mass amenable to any paternal-governing influence... The masses need a strong man who shows the way" (1966: 70; my translation).

Democracy does not work, because "there is no public opinion, no civil organization, and the citizens are ignorant of what happens at 100 km of distance." Universal suffrage did nothing but "excite anarchistic senility." Parliamentarism produced blind, inert and hypocritical governments, interested only in maintaining *status quo*. Therefore,

> "...the *caudillo* emerges in all his strength... Latin-America instituted this virile force in an entity called President of the Republic, which replaces in so-called 'tranquil' countries the circumstantial disappearance of the dictator... [Presidential] authority is almost Caesarian... as a dike of contention against anarchistic overflowing" (Peralta, 1966: 78; my translation).

Written in 1966, Peralta's essay predicted with surprising precision what Chile would later go through - anarchistic revolt under Allende, ruthless authoritarianism under Pinochet, and, nowadays, a Caesarian type of democracy. It is up to the Chileans to determine whether Caesarism is the definite outcome of the dialectics between *huaso* and *roto*. Certain it is that they are two sides of the same coin - the 'regulating force' has no *raison d'être* without the 'driving impulse,' and the 'aspiration for order' does not exist without the 'will to be' (Godoy, 1977).

In other words, the Chilean is a "being of two worlds" (Rodríguez et al., 1999). The *roto* and the *huaso* live together in one personality, afraid for, and violent against, each other. That brings us to the point of widest consensus in the idiosyncrasy debate - the conclusion that the Chilean has an instable, contradictory and unresolved identity (e.g. Larraín, 2002; Morandé, 1984; Montt, 1984). Taken as a social fact - instead of a psychological disease - this schizophrenia expresses the tensions and contradictions encompassed by patron-client institutionality. It expresses the mutual repulsion between hierarchy and fatalism, the two ways of life that are condemned to live together in patron-client systems. In the proposition that patron-client organization is 'Chilean institutionality,' the *huaso* and the *roto* represent the schizophrenic yet durable coalition of paternalistic hierarchism and clientelistic fatalism.

4.4. The debate on the 'Chilean economic mentality'

Chile's economic development is the other key issue in the idiosyncrasy debate, though it has a less long trajectory than the problem of political order. Spoiled by wealth from grain and nitrate exports, the Chilean economy became a real concern only at the beginning of the 20th century. At that time, it was becoming clear that industrial growth was lagging behind, and that the economy was stagnant due to the low spending power of the Chileans. The founding father of the debate on the 'Chilean economic mentality' is Francisco Encina, whose polemic *Nuestra inferioridad económica*, first published in 1912, is still compulsory literature for present-day economy students. In this classic, Encina argued that Chile is economically inferior:

> "Our race, partially because of its backward evolution and partially because of its detestable and inadequate education, is vigorous in war and mediocre in agriculture, but lacks all conditions necessary for industrial life" (1912: 32).

Unlike his racist interpretation, Encina's long list of Chilean shortcomings, upon which his argument rests, is widely endorsed by later scholars. It is unsurprising from the point of view of 'Chilean institutionality' that this list of flaws reflects the same dichotomy as the debate on Chile's political order. The two core claims regarding Chile's economic mentality are nothing but economic reformulations of the *huaso's* conservatism and the *roto's* distrustfulness. The first claim holds that the Chilean is not ambitiously enterprising, but passive, conformist, leisurely, imitative, wasteful, and averse to risks. The second claim holds that, contrary to what is required in business organizations, the Chilean is inexact, dishonest, opportunistic, chaotic and individualistic. These already familiar arguments define Chile's problem of economic (under)development.

The claim that Chileans are inappropriate for business organization rests upon the insight that trust and objectivity are key to economic life. These requisites are violated by the *roto's* opportunism and distrustfulness, but also by the *huaso's* inclination to personalized rule. Time and again, the idiosyncrasy debate addresses these cultural shortcomings. Encina continues:

> "We have an inherited incapacity for collective action... For an organization to subsist between us, the direction should, *de juro* or *de facto*, be in the hands of one single member with capacity and character... We lack morality and discipline...without morality, associations cannot develop well... We are inexact... Terms were not made for us... Neglect, disorder, and absence of any method are normal for us" (1912: 69-74; my translation).

In 1918, Juan Enrique Concha taunted Chile's elites for their distrust and individualism:

> "Our bourgeoisie lives isolated, without contact between each other, distrusting each other, not conceiving that association would give them the force they need" (1918: 312; my translation).

In 1926, Alberto Cabero took the point further:

> "Honesty is rare among the illiterate, but [also] among the upper classes, business trust is scarce. When embarking upon commercial transactions of any significance, one has to take all types of legal precautions, which delays and hinders business... A false aristocratic spirit and exaggerated sense of personal dignity conduce at retirement and impedes cooperation... This lack of associative spirit, this individualism and anarchistic indiscipline, manifest themselves everywhere, from the soccer championships, in which our strong, agile teams fail because everyone wants to distinguish himself at the cost of the group, to the worker associations that are always in internal struggle... [and] to the limited liability companies that are difficult to organize because of mutual distrust and because those who are not director abstain from going to the meetings" (1926: 325; my translation).

In 1936, in a study into Chile's industrialization, funded by SOFOFA - the industrial association - Oscar Alvarez argued:

> "Between us, egoism, industrial individualism and classic Latin avarice are still firmly rooted. While we are divided and spoil our energies, we cannot compete with our ultra-specialized, ultra-united and ultra-modern competitors" (1936: 329; my translation).

In 1966, Ariel Peralta identified the genetic roots of such individualistic behavior:

> "An individualistic character and an incurable dissolving spirit accompanied the Spanish pioneers in their American adventure... Uniting these Spanish and indigenous germs, we encounter the primary roots of Latin-America's endemic disease: the lack of unity and a spirit of narrow-mindedness" (Peralta, 1966: 60; my translation).

With their belief in a fixed Chilean unfitness for business life, these scholars were blind to the institutional embeddedness of the economic behavior they were studying. They overlooked the possibility that dishonest behavior may have been a form of resistance to subordination (see Mars, 1982, on different cultural styles of cheating and swindling at the workplace). They never considered that institutional distrust may derive from non-standardized regulation, nor that a lack of horizontal cooperation is inherent in clientele-based *caudillo* leadership.

The explanatory power of 'patron-client institutionality' was not omitted by José Medina Echavarría, an exiled Spanish sociologist living in Chile, who understood that the problematic adoption in Chile of modern forms of economic organization was related to the persistence of patron-client structures. He argued that the paternalistic model of authority was not confined to the *hacienda* only, but had "extended from there, and penetrated into all command relations" (1963: 105). It had instituted a threefold cultural belief in the importance of dyadic relations, the indispensability of protection, and the unlimited power of the superior. These beliefs, so argued Medina, clash with the logic of occidental organization - i.e. with the *Sachlichkeit* of modern corporations that operate through impersonal, objective regulation. Chile's transition from paternalistic command to *Sachlichkeit* therefore generated a "nostalgia for the lost father:"

> "A painful emptiness emerges when an institution is demolished without a new one being ready to substitute it. Traditional paternalism provided small-minded yet steady support... [where] the public organizations of tomorrow will provide support that is cold and impersonal, yet more efficient and predictable. In between, there is only anxiety and despair" (1963: 109; my translation).

In the 1990s, Chilean sociologist Dario Rodríguez built on Medina's insights, arguing that Western forms of organization conflict with Chilean tradition (Rodríguez, 1991, 1995, 1999). Attributing the meager performance of Chilean firms to the unquestioned

application of foreign management models, Rodríguez argues that Chile should develop its own management model based on the Chilean 'way of being.' For the international success of Japanese companies demonstrates that it is possible to compete on the basis of paternalistic management. What exactly Rodríguez has in mind will be analyzed in Chapter Six on management styles in Chilean firms. Central here is his argument that Chile's underdevelopment is not caused by the national economic mentality, but by the neglect of it.

The second claim in the debate on Chile's economic mentality holds that the Chilean lacks ambition and initiative. This verdict is extended not only to businessmen but also to the working classes. They are blamed for a lack of commitment to their company:

> "The Chilean employee does not perceive with clarity that the success of his patron is his own success... He spends minimum effort to fulfill his obligations, and neglects these every time he cannot be caught. Through this behavior, he condemns himself to vegetate his entire life in mediocrity, while simultaneously hindering the business of the entrepreneur" (Encina, 1912: 76-77; my translation).

> "Considering work as punishment, our people lack the joy of consciously working and, an indispensable condition for progress, the interest and love for the work they are exercising" (Guzmán, 1945: 336; my translation).

But Rodríguez' work clarified that the Chilean lack of initiative is part and parcel of the national tradition of paternalistic management. A Chilean employee shows no initiative because he considers any action beyond the manual not part of his function but the duty of the manager. The patron commands and the servant obeys. So if there is a lack of entrepreneurship in Chile, then the ruling class must be blamed.

Indeed, held responsible for the country's economic problems, Chilean elites are fiercely attacked in the idiosyncrasy debate. Virtually all historical assessments of Chile's political economy assert that the country missed several golden opportunities to develop and industrialize (e.g. Loveman, 1988; Montero, 1997). Rather than pursuing commerce and manufacturing, the Chilean upper classes were devoted to drawing-room politics, liberal professions, and dissipation of the country's natural wealth on ostentatious consumption. Early critics saw this lack of ambition as a psychological shortcoming:

> "The Chilean is averse to methodic, persistent activity... He has the economic psychology of the conqueror: an obsession for fortune in one blow" (Encina, 1912: 67; my translation).

> "We absolutely lack initiative... We do not have this beautiful ambition to rise, to become something more... Love for effort itself, intense desire for power and greatness, unlimited ambition, racial pride, self-esteem..., all the ideas and feeling that constitute the nerve of the businessmen are embryonic in us" (ibid.: 87-88; my translation).

> "From the Spaniards, [our elites] inherited their bragging, their arrogant pride..., their unfitness for cooperation and for industry..., their weak initiative that makes them expect everything from the government and which makes politics into a profession" (Cabero, 1926: 320; my translation).

These critics overlooked the possibility that the extravagant behavior of Chile's upper class may have been related to the nature of the Chilean society of that time. Like in any other patriarchal society, the Chilean elite developed a paternalistic culture, a culture of *noblesse oblige,* morally to justify their privileged position and super-ordination over a majority that lived in misery. The self-image and self-respect of Chile's upper class centered around a belief that the masses could not take care for themselves. They had the Christian duty to do it for them (cf. Genovese, 1972). The essential element to make this worldview coherent - i.e. founded upon nature - was a demonstration of natural superiority. Whether hypocritical or not, the Chilean elite embarked on ostentatious consumption so as to demonstrate cultural superiority, while it adhered to 'public duty' rather than private enrichment, so as to demonstrate moral superiority.

This orientation toward public status rather than private enterprise continued well into the second half of the 20th century. It thus persisted through Chile's transformation into an urban, industrialized nation. Industrialization had been expected to launch Chile into the age of Western modernity, but in 1965 it was already clear that

> "...the Chilean society, instead of advancing toward a system that awards merit and effort, has preserved and extended... the traditional system of clientele politics, which, in its structure and functioning, is totally incompatible with the organization of a modern, efficient democracy" (Sunkel, 1965: 531; my translation).

Steered by the central state - the new super-patron - Chile's industrialization did not demolish the paternalistic tradition of the Chilean elites. Composed of bureaucrats and party militants rather than businessmen Chile's industrial bourgeoisie constituted a kind of "industrial clientele" and had no "cultural ethos" associated with industrialization:

> "There was no set of values to replace those that reigned supreme before the coming of industrialization, no cultural bastions from which to launch a challenge against the remnants of pre-industrial society... They [the industrialists] were obliged, therefore, to embrace the culture of the traditional upper classes" (Véliz, 1980: 274).

This upper class culture of status and prodigality is so persistent that contemporary scholars, unaware of its connection to patron-client institutionality, continue to see it rooted in the nature of the Chilean. Pablo Huneeus (1979) traces it back to the very first economic transaction between Christopher Columbus and the natives of Latin-America. Whereas the Spaniards were interested in gold and other raw materials, the Indians were eager to obtain beads, mirrors, and other consumer goods:

> "At the outset, the indigenes displayed what would be the essential feature of their economic mentality - a propensity to consume without the countervailing propensity to produce... The Germans not only know how to drive a Mercedes Benz; they also know how to produce it. We, by contrast, consume like the civilized but produce like primitives" (1979: 26; my translation).

Seeking to understand why North- and Latin-America have fared so differently in terms of economic development, Huneeus compares Spanish and Anglo-Saxon colonization.

The Spaniards, interested in "easy wealth," subordinated the native population to let them work and serve. They thus established an inefficient, centralist economy which did not run into much opposition because the indigenous systems had been autocratic as well. By contrast, the British in North America drove the native tribes away towards West so as to create space for European settlers. Inspired by a "liberal mystic," these settlers established "new forms of life based on equality of opportunities, and individual drive." They "immediately started to work the land," laying the "ethical foundation for later capitalist development" (Huneeus: 1979: 27-28). In modern Chile, continues Huneeus, both mentalities have merged into a "hybrid species of *homo economicus*, neither traditional nor modern, but having his own style of action" (p. 35). This family of Chilean *homo economicus* ramifies into four sub-types. Figure 4.1. plots these sub-types against a grid-group matrix to stress their resemblance to the four cultural ways of life distinguished in GGT - i.e. the swindling fatalist, the risk-adverse bureaucrat, the maximizing individualist, and the sectarian dreamer.

Figure 4.1: Four types of Chilean economic mentality, according to Huneeus (1979)

The robber: The second most common type. Without any concept of long-term business, he tries to yield maximum profit in one blow through swindling and falsification.	**The conservative type:** The most common type. Risk-adverse and uninspired, he works only to maintain a certain quality of life. He esteems status and glory rather than growth.
The entrepreneur: The most scarce type; the real Schumpeterian businessman. Constantly innovating, he is a leader who organizes and inspires other people.	**The treasure-seeker:** A relatively scarce type. Dreaming of the golden pot at the feet of the rainbow, he sets up one small, mediocre business after the other.

In 21st century Chile, Huneeus' classification seems to have lost little in meaning. Granted, the proportions among the prototypes have changed considerably. The low-left quadrant has vastly expanded since neo-liberalism was imposed upon the Chileans. Modern Chile portrays itself as a winning country - the 'jaguar' of Latin-America. The export miracle is a source of national pride, and businessmen are praised as prophets of progress and modernity (Subercaseaux, 1996). The signing in 2004 of trade agreements with the EU and the USA was celebrated with headlines clamoring "Chile concludes a definite step into the First World." Even subsistence peasants, who leave their province only for formal matters in Santiago or for a yearly trip to the beach, are expected by policy-makers to 'convert' into innovating entrepreneurs operating on the international market.

But this euphoria cannot take away the uneasiness regarding the other side of Chile's modernity - i.e. persistent poverty, increased inequality, massive indebtedness, delinquency, drug consumption, etc. As stated earlier, 74 percent of all Chileans declare negative feelings towards the free-market economy, and 57 percent consider themselves losers (UNDP, 2002). The export miracle, along with the successful entrepreneur, is only a tiny part of the Chilean reality, blown up out of proportion by the spotlight of national media. The domestic economy, reality for the majority, is still the domain of the 'conservative type' and the 'robber.' They prevail in the informal sector - one-fifth of the total economy - and in the medium and small business sector. Hundreds of thousands of farmers, handicraft workers, retailers, and self-employed professionals live and work from day to day, without projections, without investments, simply seeking to endure 'the crisis.' But neither are large firms free of 'conservative types' - many privatized firms still run extremely bureaucratic operations. In spite of the neo-liberal hymn of praise, the Schumpeterian entrepreneur is still a rare bird in modern Chile.

So perhaps Claudio Véliz is right when he argues that economic development is not "apportioned equally among the children of God" (1994: 187). He asserts that Spanish-American culture is "inimical to the establishment and growth of a modern economy" (ibid.: 198). The core of that culture, Hispanic Counter-Reformation Catholicism, was an attempt to build an all-encompassing monarchical-religious structure that, once and for all, would unify society under stable, predictable arrangements. Having reformed itself from within, and confident there was no further need for additional improvements, the Castilian world order "sought to bring alteration forever to a halt" (ibid.: 200). This "culture of containment," with its mistrust of innovation and intolerance of diversity, clashes with the values of modern capitalism, namely, mobility, individuality, creativity and diversity. The entrepreneur is "the introducer of something new..., the disturber of peace, the destroyer of existing values" (ibid.: 205). As long as 'the Castilian dome' remains intact, so argues Véliz, Latin-America will be underdeveloped.

Fortunately, Véliz ends his epistle optimistically. Recently, the Castilian order has begun to crumble, not because it was bested by rival doctrines, but because "it proved defenseless against blue jeans, computer graphics, jogging shoes, and electric toasters" (ibid.: 219). The import of these seemingly innocent artifacts of industrial capitalism triggered off a concealed yet revolutionary process of cultural assimilation that resulted in the embrace of free-market economics and a massive conversion to Protestantism. Now, "the task at hand is not to discover ways of restoring a crumbling dome to its former glory, but to clear the rubble as expeditiously as possible" (1994: 230).

We need not agree with Véliz' essentialism to endorse his point that certain aspects of Latin-American culture are not instrumental for industrial capitalism. If his point were false, then the whole debate on Chilean economic mentality would not exist. The debate exists to express the contradictions between the expansion of modern capitalism, and the persistence of patron-client structures in Chilean society. The list of presumed

Chilean shortcomings criticizes the *huaso* for conservative centralism, and the *roto* for distrustful opportunism. The debate on the Chilean economic mentality thus addresses how hierarchism and fatalism thwart the country's economic development.

4.5. Reinterpretation of the idiosyncrasy debate

Reinterpreting the idiosyncrasy debate as a normative discussion about Chilean society rather than national mentality, allows us to conclude that 'patron-client institutionality' is real and persistent in Chile. Social facts must be explained by social facts. The social fact to be explained here is that throughout their history, the Chileans are debating their national idiosyncrasy. The social fact which explains the former is, in my view, the persistence of patron-client organization in the Chilean society (Figure 4.2).

Figure 4.2: Reinterpretation of the debate on Chilean idiosyncrasy

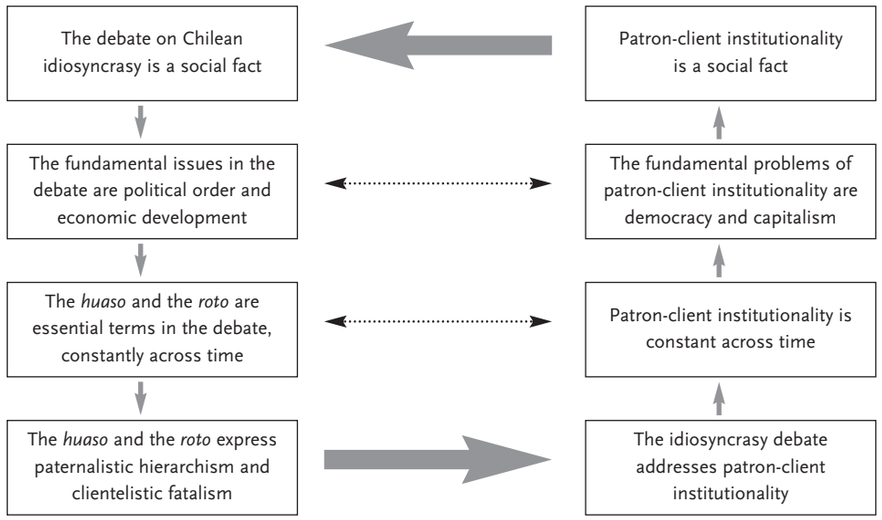


Figure 4.2. shows that the idiosyncrasy debate exists to address the problematic nature of persistent patron-client structures in Chile. Patron-client principles like verticalism and particularism go against principles of democracy and capitalism, such as equality and universalism. These contradictions give rise to the debate on Chilean idiosyncrasy. More precisely, the idiosyncrasy debate exists to resolve these contradictions and make Chilean patrimonialism viable. Granted, in periods of economic expansion, the debate

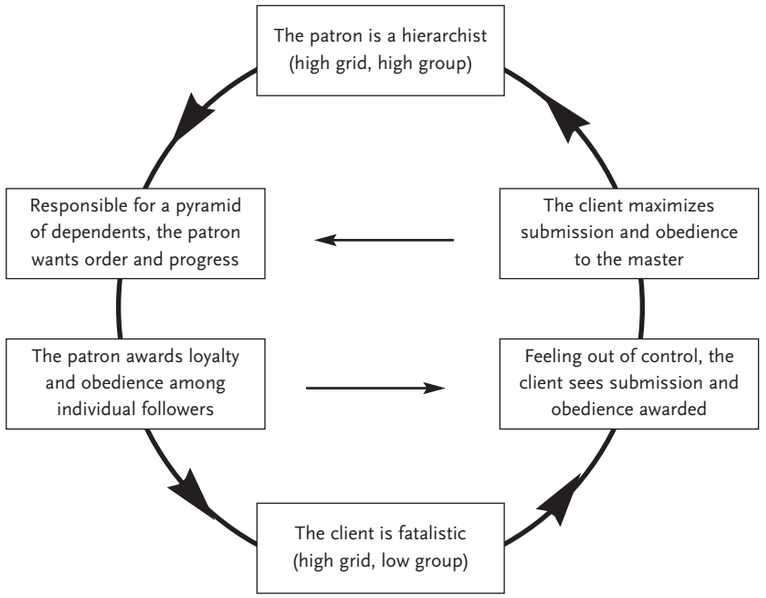
calls for modernity, mobilizing critique and resistance to Chilean patrimonialism. Yet this mobilized resistance does not threaten the survival of patron-client institutionality, precisely because there is general progress and prosperity. However, in times of economic crisis, the idiosyncrasy debate appeals for national identity, calling upon the Chileans to recognize their roots and go back to the safe grounds of paternalism. Hence, precisely when the institution needs it most, the debate calls for tradition. Through these cyclical struggles over identity and modernity, patron-client organization is being reproduced in Chile. Mobilizing commitment and deflecting resistance to the system, the idiosyncrasy debate transforms patrimonialism into 'Chilean institutionality.' That is the proposition of the remainder of the chapter.

4.6. The reproduction of 'Chilean institutionality'

In their quest for self-preservation, institutions are equipped with mechanisms to facilitate their reproduction - mechanisms that streamline 'structure' and 'attitude.' The institution simply generates its own view of the world, a thought style, which sustains the existing pattern of interaction (Douglas, 1986). Such mechanisms for institutional reproduction can be schematized as vicious circles running back and forth between 'organization,' 'cognition,' and 'conduct.' Patron-client systems have two key vicious circles for self-reproduction. One generates dependency and paternalism, the other distrust and despotism. Both are closed patterns of social interaction between patron and client, which support their cultural biases but also derive from these.

The vicious circle of dependency (Figure 4.3) generates a pattern of social behavior that has been designated *huaso* by the idiosyncrasy debate - i.e. the 'regulating force' in Chilean culture which makes the client submit to a patriarchal hierarchy. This surrender to a central, all-embracing order is not a piece of passive resignation nor a broken will. It is an active livelihood strategy that effectively makes use of a most valuable resource for survival in a cruel, unequal world - the client's relationship to a master. Trapped by Caesarian 'divide and rule' policies, client loyalty to authority derives from a perception of being in a relatively privileged but insecure position - or fear that he/she is not (cf. Hart, 1986). The more privileges the client receives, the stronger his/her identification with the top of the hierarchy. Personalistic recruitment into the hierarchy thus generates loyalty to the *status quo*, while permitting at the same time a limited degree of competition and social mobility (Sunkel, 1965). Apparently resigned, the client pursues a pro-active fatalistic livelihood strategy - i.e. bootlicking. The client stakes bets on acquiring support from the master, while refusing to take innovative initiatives or to gather with peers, for such actions may upset the patron. The client is not prepared to take such a risk. For everybody knows how harsh the patron can be.

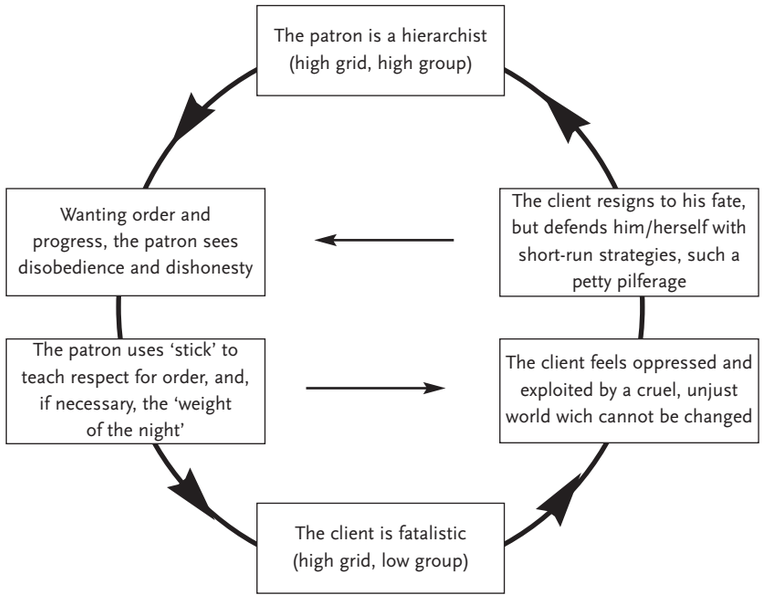
Figure 4.3: The vicious circle of dependency



The unintended consequence of the client's livelihood strategy is that it reproduces and legitimates a subordinated position by confirming the patron's experience that enlightened leadership is needed for getting things done (cf. Marín-Bravo, 1989). In other words, the need for patriarchal leadership cannot be simply dismissed as a self-serving ideological rationalization of despotic rulers. This need is real, for it is true that clients act in a passive and dependent way. Hence, in sum, there is a closed circuit of behavior, cognition and organization between actors, which generates an environment of submission, paternalism, and dependency. The persistence of patrimonialism, with its inefficient and undignified dependency relations, is not superimposed nor irrational, because there are real needs and active livelihood strategies underlying it.

Indissolubly connected to the dependency spiral is the vicious circle of distrust, which generates a pattern of social conduct designated *roto* in the idiosyncrasy debate (Figure 4.4). The client feels oppressed and exploited by a cruel, unchangeable world, in which one either eats or is eaten. The client defends against structural injustice through individualistic, short-term strategies, taking justice into his/her own hands. Whenever an opportunity presents itself the client embarks on petty pilferage, or neglects duties, but always stays within the margins of tolerance (cf. Mars, 1982). Channeled into small-time monkey business, the resistance of the *roto* is distanced from the fundamental power relations that define a subordinated position (cf. Clapp, 1988).

Figure 4.4: The vicious circle of distrust



Unintentionally, this livelihood strategy reproduces and legitimates the oppressive situation by confirming the patron's experience that clients cannot be trusted, and need to be straightened out on the road of virtue. In other words, the need for firm leadership and strict control cannot be dismissed as paranoid conservatism, for it is true that opportunism and immorality are widespread. The need for patriarchal leadership is real, for it is true that impersonal regulation does not work in a climate of generalized distrust. Even the occasional 'weight of the night' is for many preferable to anarchy. Hence, in sum, there is a closed circuit of behavior, cognition and organization between actors, which generates an environment of opportunism, authoritarianism and distrust. The persistence of patron-client institutionality, with its Caesarian leadership style, is not undemocratic nor outdated, for it protects the constitutional state, and the rights and liberty of the people.

The pivot on which both circles turn is system-blindness. The institution generates a problem, and then defines a symptom-fighting solution which aggravates the problem instead of resolving it. Patron-client institutionality creates two fundamental problems, dependency and distrust, for which the most effective solution, at least in the short run, is patron-client institutionality itself. Dependency is resolved, but also sustained, by paternalism, while opportunism is controlled, but also reproduced, by despotism. In this way, patron-client institutionality reproduces itself as the most effective and rational way

to organize a society.

This system-blindness is what grid-group theory calls an 'institutional thought style' or 'cultural bias.' Institutions are biased - they have an in-built pattern of failure, an inherent sensitivity to certain types of problems, an automatic preference for certain types of solutions, and a blindness to alternative types of solutions (cf. Hood, 1998). The patron, rather than teaching responsibility among his clients, resolves disobedience by strict control and occasional repression. He resolves dependency through charity rather than empowerment. The clients, rather than organizing and learning from experience, struggle for a better life by bootlicking and petty pilferage. The actors are seemingly resolving their problems, but in reality they are reinforcing the structures that underlie these problems.

The concepts 'thought style' and 'bias' are somewhat misleading, for it would be erroneous to think these are blinkers in the mind of the institution, or in the minds of its members. An institutional bias constitutes a series of real material limitations to the range of possible actions. Chaos would reign if the patron were suddenly to change his control-based organization into one based on functional autonomy and responsibility. Widespread opportunism and institutional distrust prevents him from exchanging 'stick and carrot' for an impersonal system of law enforcement. There is no alternative to top-down governance as long as clients embark on short-run, individualistic livelihood strategies rather than grassroots organization. The Chilean road to socialism, for instance, demonstrated that clients, when empowered, cannot be expected to assume, from one day to another, a moderate, sustained position in negotiations. All these options are materially impossible, at least in the short run, because they fall within the blind spot of 'patron-client institutionality.' The options for reform are unrealistic if they do not match the cultural biases of the stakeholders, as reflected in attitudes, capabilities, know-how, and strategies for action. Both patron and client have developed their rationality in a context of patron-client organization - they think, act, and embody 'patron-client institutionality.'

Thus the real puzzle is institutional change rather than durability. This insight is not widely shared. Absorbed in every day delusions, people tend to make mountains of molehills, endowing historical value to just about any event. Even scientists, whose analyses are supposedly less sensitive to stock-exchange quotations, massively worship the God of Flux. Contemporary sociologists like to emphasize, for instance, how radically the post-industrial society is fragmenting and shifting toward new, flexible organizational forms that are harbingers of the emergence of a post-modern, complex global order based on mobility and hybridization. Granted, change is continuous - one can never step into the same river twice, as Heroclites observed centuries ago. But on the other hand, the course of the river hardly changes. Some authors acknowledge this, like Bruno Latour, who studied technological development - the symbol of progressive change - and asked himself whether mankind has ever been modern (1986). Likewise, Friedrich Nietzsche considered 'the eternal return of the same' his most brilliant idea for capturing

the essence of human existence. Hence, a more detached perspective leads to different conclusions about the continuous flow of events in life - i.e. just as there is order in chaos there is continuity within change.

This we have seen in Chapter Three, where it was demonstrated that 'patron-client institutionality' kept pace with four-and-a-half centuries of development and change in Chile. Chilean patrimonialism displayed the remarkable ability to adapt its shape and content to changing circumstances, without compromising its basic organizational principles. This is because patron-client systems are dynamic, flexible and capable of resolving apparent contradictions - i.e. by stimulating social mobility, they generate loyalty to the *status quo*, and by mobilizing resistance and petty pilferage, they maintain fundamental power relations. They oppress and exclude to give protection and charity. They alternate between patrons and ideologies but reproduce the basic outline of the political economy. Like a chameleon, patron-client institutionality adapts organically to its setting.

Chilean patrimonialism evolved from coercive colonial rule, to voluntary subordination on the *hacienda*, to party-directed political patronage in the Compromise State, to diffuse forms of dyadic exchange in the modern free-market democracy. At certain points in time, this process of chameleonic transformation was not so organic. In the 1930s and 1970s, deep crises provoked the installment of dictatorial regimes - as predicted by GGT, threatened institutions tend towards 'polar responses' (cf. Hood, 1998). The authoritarian regimes that emerged to restore the patrimonial order only suspended their 'weight of the night' when the Chilean masses fell absolutely silent again. In the end Chilean patrimonialism survived any challenge, and never ran into insurmountable contradictions. The patrimonial hierarchy managed to maintain its grip on the fatalistic masses. Its power was based materially on ample financial resources from nitrate, copper and agro-exports. Moral legitimacy was provided by relative prosperity, and by the culture of paternalism. Political hegemony was based on the effectiveness of 'stick and carrot' and 'divide and rule.'

Nonetheless, these resources are insufficient to make for durable institutionality. The missing ingredient is a positive argument, a belief, an ideology to inspire the members of the institution to respect the existing norms and rules of social conduct. What is needed is a formula that establishes the naturalness of patron-client organization:

> "To acquire legitimacy, every kind of institution needs a formula that founds its rightness in reason and in nature... Most established institutions, if challenged, are able to rest their claims to legitimacy on their fit with the nature of the universe. A convention is institutionalized when, in reply to the question: 'Why do you do it like this?' although the first answer may be framed in terms of mutual convenience, in response to further questioning the final answer refers to the way the planets are fixed in the sky or the way that plants or humans or animals naturally behave" (Douglas, 1986: 45-47).

It is the debate on Chilean idiosyncrasy that provides these naturalizing formulae. The idiosyncrasy debate legitimates patron-client institutionality by defining Chilean nature

in terms of the *roto's* anarchistic spirit and the *huaso's* need for absolute values. The *roto/huaso* dichotomy is the most durable naturalizing formula in the idiosyncrasy debate. Other formulae invoked by the debate seem to have lost a bit of their appeal, such as the idea of a triangular religious-monarchical societal order. But other formulae remain valid as they locate the reason of things in the past, referring for instance to the fatalistic nature of the Indians, the dissolving spirit of the Spaniards, or the initial terms of transaction in their first contact. A particularly smart formula is the one that defines Hispanic Counter-Reformation Catholicism as the (unchangeable) core of Latin-American culture.

These claims sum up as a great magic formula that founds the rightness of patron-client institutionality in nature and history. The core of it comes to this: "We are half-breeds, a mixture of primitive Indians and degenerated Spaniards. Our nation is still young, and we first need to learn how to behave ourselves before our society may be based on individual merit and responsibility, like you guys in the Old Continent." This formula of 'a promised land,' as is generally known, is powerful enough to make a people endure slavery, cross deserts and split oceans. Compared to that, reproducing patron-client institutionality is a piece of cake. The founding father of the Republic of Chile had already baked it:

> "A strong, centralized government (...) to straighten out the citizens on the road of order and virtue. *Once they have been moralized*, then comes the government which is completely liberal, free and full of ideals, in which all citizens participate" (Diego Portales cited in Peralta, 1966: 134; my translation, my italics).

A century later, Francisco Encina asserted that the Chilean people had developed quickly but still lagged behind in civilization, when compared to Europe:

> "The European peoples of today cannot be measured on the same scale as the Chilean, a half-breed, whose most civilized race, the Spanish, underwent regressive moral selection due to emigration, and whose other race, the Auracanian, had not yet left the Stone Age... Our blood is generous but could not catch up in three centuries the distance that the European peoples have traveled in two thousand years... Our evolution has been faster than the German... yet it could not fill up certain gaps that are important for economic life" (1912: 85; my translation).

The 'promised land formula' is so strong that it leads to denial of reality. While inter-bellum Europe was lapsing into xenophobia, violence and genocide, Alberto Cabero wrote:

> "Vices are proper to any young people that is still close to its primitive state. The most moral nations, like Great Britain, have already passed through this phase" (1926: 328; my translation).

More important than these historical epistles is that many contemporary Chileans, both leaders and those in the crowd, still believe in the 'promised land formula.' Any foreign

visitor to the country must have run into the claim, in a casual conversation over soccer or politics, that Chilean people are a lamentable genetic mixture lagging far behind in civilization and morality. By postponing organizational change until the national culture has sufficiently matured so as to allow for such change, the Chileans throw away the baby with the bathwater. Disregarding the need for synchronic organizational and cultural change, the Chileans reproduce the existing Chilean way of life. Hence, patron-client structures persist in Chile not despite but by virtue of the critique and resistance mobilized through the idiosyncrasy debate. Chilean patrimonialism is constantly recreated as the conversation about the patrimonial order unfolds. Directly expressing and even wallowing the high dosage of fatalism in patron-client culture, the idiosyncrasy debate founds patron-client organization in nature and history, and thereby reproduces 'Chilean institutionality.'

Chapter 5 Back to the tomato chain

5.1. Introduction

This chapter goes back to the tomato chain to re-address the issues left open in Chapter One. Chapter One showed that *Tomatio* and its chain partners are practicing a patron-client model of chain organization characterized by centralized control, personalized incentives, blurred task divisions, and institutional distrust. The question left open was why these knowledgeable actors, operating in a highly competitive business context, maintain a patriarchal management model despite being aware of its negative impacts upon the performance of the chain and its individual segments. Why are the chain participants unable to overcome the vicious circle of distrust, and start cooperating as mutually dependent business partners? Why do they not join to make headway against rival tomato chains in, say, Turkey, China, or California?

Having learned that management and organization in Chile are helpfully understood in terms of patron-client theory, we now have the capacity to comprehend the puzzling situation in Tomatio's supply chain. Armed with the middle-range theory of 'Chilean institutionality,' we know the problem is cultural rather than contingent, and that answers are to be found in the institutional thought styles that make the chain partners sustain their existing patterns of interaction. The central hypothesis of this chapter is that Tomatio, as a paternalistic hierarchy, and its chain partners, as clientelistic fatalists, are trapped in a vicious circle of distrust by their institutional biases. Their potential to act otherwise is blocked by their limited rationality, partial blindness, selective memories, and incapacity to perceive alternatives.

The chapter will first analyze the thought styles of the tomato chain participants, and then demonstrate how these keep them trapped into the vicious circle of distrust. The last part of the chapter, analyzing the so-called tomato chain platform, shows how hard it is to change the organization of the chain. The tomato platform, an innovative scheme to foster chain partnerships through an externally mediated dialogue on shared interests, was constructed as part of the fieldwork for this research project.

5.2. Tomatio as a paternalistic hierarchy

Any type of firm entails a certain degree of hierarchy - it is a rule-bound and layered group-based organization (Williamson, 1975; North 1990). This managerial hierarchy tends to be stronger when the company is involved in mass-production, or in non-competitive business sectors, as exemplified by the predominance of Taylorism in heavy

industry, and by the proverbial bureaucracy of the public sector (Morgan, 1986). Nevertheless, without discarding a 'technical' relation to markets and production processes, a firm's organizational practices cannot be reduced to the functional requirements of business organization. Economic behavior and institutions are socially embedded (Granovetter, 1985; Granovetter and Swedberg, 1992). Hence, organizational practices are not merely a rational calculus of the most efficient way to organize, but also

> "...strategies of control that serve to legitimate structures of command [for which they] often employ cultural understandings... Such practices are not randomly developed but rather fashioned out of preexisting interactional patterns, which in many cases date to pre-industrial times. Hence, industrial enterprise is a complex modern adaptation of preexisting patterns of domination" (Hamilton and Biggart, 1992: 182).

A 'modern adaptation of preexisting patterns of domination,' Tomatio is a paternalistic hierarchy with a strongly personalized, top-down approach to management. This organizational bias underlies not only the way the company steers the tomato chain, but also its business strategies, public communications, internal relations and characteristic pattern of failure, namely, overconfidence in authority and 'big ideas.' To grasp Tomatio's institutional thought style, the analysis must be raised to the level of the corporate holding structure of which Tomatio forms part.

5.2.1. Tomatio's corporate background

Tomatio is a subsidiary of *Empresas Iansa*, Chile's largest agribusiness group (Table 5.1). Empresas Iansa has been pivotal for the development of Chilean agriculture, not only because it yearly contracts close to 10,000 farmers to cultivate 60,000 ha, but also because of its historical background as a state company for rural development.

A state-run sugar beet processor created in 1953, *Iansa's* original objectives were to reduce the country's dependency upon sugar imports, and to develop its most depressed economic sector - agriculture (Errázuriz et al., 1990; Gómez, 1990; Gwynne and Bee, 1990). Spearheading CORFO's agro-industrialization policies, Iansa was endowed with vast resources to modernize Chilean agriculture, and to raise the rural standard of living. The company constructed roads, bridges, and electricity networks, disposed over a research apparatus that contemporary faculties in Chile only dream of, and pioneered the massive introduction of contract farming. For tens of thousands of farmers, Iansa's contract scheme was their first encounter with the blessings of modern capitalism and technology. The claim by crude sugar importers that Iansa was commercially unviable was correct but bluntly irrelevant, because it was a political enterprise run according to political criteria. Not even the decision to build a sugar plant along the shores of the Llanquihue lake - a picturesque surroundings ideal for water sports but not exactly suitable for crop production - affected the company's continuity.

Its existence was based on unlimited subsidies, tariff and non-tariff protection, and the political need to develop the Chilean countryside.

Table 5.1: Profile of Empresas Iansa (2002)

Annual revenues	US$ 397.1 million		
Total exports	US$ 60.7 million		
Number of employees	679 permanent	645 seasonal (average)	
Major shareholders	Ebro (Spain) 45%	Pension funds 21%	Stock brokers 19%
Subsidiaries	*Company*	*Business sector*	*% of total revenues*
	Iansa	Sugar and sweeteners	54.2%
	Iansagro	Agricultural technology	13.6%
	Proterra	Agricultural retailing	12.9%
	Sofruta (Brazil)	Tomato consumer products	6.1%
	Patagonia	Concentrated fruit juices	5.0%
	Tomatio	Tomato paste	4.0%
	Huertos de Iansa	Frozen vegetables	2.0%
	I catom (Peru)	Tomato paste	1.3%
	Agromás	Agricultural financing	0.9%

Source: Empresas Iansa, website, 2003

In the second half of the 1970s, under Chicago neoliberalism, Iansa tried to keep its head above water by dismantling all its research activities, externalizing farm assistance along with other core activities, and cutting all credits to the farmers, as well as other favorable terms of contract. In 1980, the government decided to privatize the company, still in the red, and started selling its plants, one by one, to a sugar refinery that belonged to the conglomerate of Jorge Ross, a key member of the Monday Club and close friend of the then Minister of Economy, Sergio de Castro. But Ross' conglomerate went bankrupt - one of the key events triggering off the 1981-1983 crisis - thereby returning Iansa's assets back into state hands. Confronted with massive poverty and economic involution, especially on the countryside, the government had no option but to accept the proposals contained in the 1982 Sugar Beet Plan developed by Iansa's organized employees and contract farmers. The original, fully-fledged contract scheme was reestablished, Iansa's debts to the Central Bank cleared, and a price band law issued that until today protects domestic production by mitigating the price fluctuations of the world sugar market.

Under these new conditions, Iansa prospered so well that a World Bank evaluation, commissioned by the Chilean government in 1986, concluded that Chile was amongst the world's most efficient sugar producers. This positive evaluation inspired a renewed attempt at privatization, this time through the sale of stocks rather than assets, but again

Iansa's privatization became a political soap opera occupying the front pages of all national newspapers. Having been promised preferential options on the stocks, Iansa's farmers and employees united into investment society *Campos Chilenos*, and effectively gained a 45 percent control of the company. However, by the end of 1988, the government decided to sell not half but all of its stocks, and two foreign sugar traders, *Chicago Continental* and *Sucres et Danrée*, forged a secret pact to gain a majority control of Iansa, and redirect its operations towards trading rather than production. Paying only 60 percent of the nominal stock value - due to the terms of Chile's foreign debt conversion program - and effectively convincing many stockholders to sell at prices that increased fifty-fold in only two years time, the foreign take-over was close to becoming a fact, had it not been for the exceptional reception by General Pinochet of a group of lobbyists from Campos Chilenos. Establishing the truth of the foreign pact, they convinced the government to stop publishing the sugar price bands for more than a year, to make the foreign buy-out impossible, and to allow Campos Chilenos to gain control of Iansa.

In 1990, when Chilean-owned conglomerate *Pathfinder* gained control of Campos Chilenos, the company finally entered quiet waters and, detached from any political turmoil, embarked on its first expansion program as a private company. Iansa's strategy consisted of consolidating its dominance in the domestic sugar market by improving the efficiency of internal operations and, at the same time, reducing its dependency upon sugar by diversifying into the agribusiness sector and expanding internationally (Table 5.2). To facilitate this two-part business strategy, Iansa restructured in 1995 from a single enterprise into a parent holding company with multiple subsidiaries - *Empresas Iansa*. Operating as independent firms rather than business divisions, the subsidiaries were free to form joint ventures, and attract foreign investment for expansion.

Table 5.2: Diversification and internationalization of Empresas Iansa, 1990 - 1997

Year	Company	Business sector
1990	Biomaster	Animal feed (cattle, horse, salmon, pets)
1990	Iansafrut	Concentrated fruit juices
1990	Iansagro	Agricultural inputs and technologies
1991	Tomatio	Tomato paste
1995	Iansa overseas	International financial intermediation
1995	Icatom	Tomato paste in Peru
1996	Proterra	Agricultural retailing
1997	Sofruta	Tomato consumer products in Brazil
1997	Iansa-Bonduelle	Frozen vegetables in joint venture with Bonduelle
1997	H. Lee	Gardening products

Source: Annual reports Empresas Iansa, 1995-1998

This phase of impressive expansion ended abruptly in 1997 with the resignation of the company's CEO and the appointment of a new board of directors, events expressing

tensions produced by an internal restructuring that proved far more troublesome than anticipated, exacerbated by the disastrous results of Iansa's incursion into Peru and Argentina (see below). The new directorate restructured the company into a matrix organization, centralizing all generic operations at holding level, all industrial operations at Iansa, and all agricultural operations at Iansagro, hence assigning the other subsidiaries with a purely commercial mission. Shortly thereafter, *Ebro Puleva*, a Spanish agribusiness group based on sugar and rice, gained control of Empresas Iansa. The take-over by Ebro was hostile but inevitable. Iansa needed to bring about a technological revolution in sugar production in order to anticipate the progressive dismantling of the price band system, starting in 2006, to which the Chilean government had committed itself in a trade agreement with Mercosur (the free-trade zone between Brazil, Argentina, Paraguay and Uruguay). Facing the necessity to raise sugar beet yields by at least 30 percent, Iansa depended completely upon Ebro, for years its sole supplier of agricultural and industrial technology. Having accomplished similar yield increases in Spain, Ebro was confident it could meet the challenge, and saw Empresas Iansa as a most appropriate entrance into Latin-America, paying 228 percent of the bourse rate per share.

After the take-over, the holding group changed radically, along the lines indicated by the new corporate strategy focusing on sugar production and farm services as core activities, and discontinuing all other operations unless they were capable of being developed in joint venture with a global leader in branding or trading (Table 5.3). Empresas Iansa thus returned to its roots. Whereas a few years previously sugar was to be reduced to a 35 percent share of total revenues, today it generates well over half of total revenues (Table 5.1). With a mere four percent share of total revenues, Tomatio is not as important in terms of business volume as it is in supplying tomato paste to its Brazilian sisters, and providing a market outlet for the technologies and services offered by its Chilean sisters.

Table 5.3: Development of Empresas Iansa after 1998

Year	Operation	Business sector
1999	Creation of Agromás	Agricultural financing
2000	Creation of Patagonia	Concentrated fruit juices in joint venture with Cargill
2000	Dismantling of Iansa-Bonduelle	Bonduelle ends joint venture with Empresas Iansa (the latter continues as Huertos de Iansa)
2001	Sale of Biomaster	Animal feed
2001	Sale of H. Lee	Gardening products
2002	Sale of Proterra	Agricultural retailing
2002	Creation of Alimentos do Brasil	Tomato consumer products in joint venture with Heinz

Source: Empresas Iansa, annual report 1999; website 2003

5.2.2. Corporate business strategy: 'the big leader and provider'

Empresas Iansa's background as a state company for rural development has had a pervasive influence upon its later evolution as a private company and continues to shape its contemporary business strategies. Empresas Iansa's self-perceived role as motor for agricultural modernization has remained unchanged, except for the obvious fact that the company is no longer public but private. Throughout its entire history, the agribusiness group has followed a paternalistic business strategy, providing enlightened leadership and all-encompassing farm services to a clientele of indigent contract farmers.

Iansa's original mission was to take smallholder farmers by the hand and guide them along the road of modernization, economic growth and social progress. Three decades before prominent international agencies like the FAO, IMF and the World Bank started promoting contract farming as a dynamic partnership for rural development (Glover and Kusterer, 1990; Little and Watts, 1994), the Chilean government commissioned Iansa to develop the countryside through the massive introduction of sugar beet contract farming. In an interview, Mario Vallejo, head of research in the 1960s and general manager from 1969 to 1973, was proud to talk about Iansa's early years:

> "When inaugurating the first plant, CORFO's vice-president said: "The creation of Iansa is the most important event in the history of Chile's agriculture." He was right. Iansa developed regions that were completely retarded from an agricultural point of view, and made them rise with sugar beet production and the entire organization behind it... The crop had secondary impacts upon cattle-breeding and wheat growing. The company introduced new technologies, generated employment, promoted transportation, brought amounts of capital to the regional banks, constructed roads, and promoted regional universities... Working with small farmers, Iansa raised their incomes and showed them how their eternal problems were solved by sugar beet."

Its commitment to help farmers was so strong that Iansa was not run like a company but rather as a public welfare institute. In order to generate rural employment, the crop was hardly mechanized. Heavy subsidies kept consumer prices low when world market prices were high, and producer prices high when world market prices were low. Mario Vallejo remembers:

> "Iansa went through many financial problems and CORFO had to put a lot of money into the company, because the crop was not profitable... The most important thing was not the sugar, but the socio-economic development generated by the crop... I remember one day, we had to defend ourselves in the agrarian commission of the parliament and the following was said: "For sure we can get sugar from abroad, we can get anything from abroad. But what we shall not encounter in any part of the world, what cannot be brought in cages nor sacks, is socio-economic development. Development we have to produce here, inside, with our own people."

In the early 1990s, when Iansa fell under the control of Pathfinder, an investment group without rural antecedents, it was widely assumed that the company would lose its

paternalistic commitment to rural development. No longer was there political pressure to prevent Iansa from choosing the path of agrarian capitalism, mechanization, and up-scaling. Yet as it turned out, the company chose to maintain its paternalistic business relation with thousands of smallholder farmers. In a series of exciting interviews, Ernesto Sahr, CEO from 1991 to 1997, explained to me that:

> "When we started, we made an analysis that explored the strengths of the company and the best ways to exploit them. We concluded Iansa is a company with a long tradition and a strong base of farmers... The majority of them, around 80%, are small farmers without alternatives nor financial capacity. Throughout the years, they have been selected and trained... We have been their mama, as farmers are people with little preparation... But strangely enough, we have had better results with small farmers than with medium and large-scale farmers who work with their own capital and technology. The small ones have more capacity for higher yields. This has been vital for the firm, a base of small farmers as support of the company."

Mario Salgado, ex-general manager of the subsidiary in Peru, also emphasized to me that the company needs 'loyal' smallholder farmers:

> "To work with small farmers has many advantages from the point of view of loyalty; they don't change from one crop to another because of their financial problems, unlike the medium and large producer who can easily switch to other crops."

Hence, when Iansa diversified into the agribusiness sector, the company never lost sight of its central pillar - thousands of small 'loyal' sugar beet farmers. Future growth had to come from new, more dynamic activities, but sugar remained the basis of the company, as stressed by the then president Juan Obach: "It should not be forgotten that sugar has allowed Iansa to develop its most important asset, a clientele of nothing less than 11 thousand farmers" (El Mercurio, 22-07-1995). Departing from that sweet base, the company conceived of new business opportunities, as explained to me by Ernesto Sahr:

> "We made use of all annex activities to sugar. For instance, in Curicó, our farmers were involved in apple production and tomato. In the South, the main dairy production area, we entered into cattle feed. In this way, all these new business lines were set up..."

Far from detaching Empresas Iansa from the farming community, the new business lines were intended to expand and intensify the relations with the growers. Ernesto Sahr remarked:

> "What worried us most, was not to lose this personalized relation with the producers. They are people who cannot operate independently in the free market, they have cultural and financial restrictions, so everything depends on the personalized treatment they are given... When we created Proterra, we had the alternative to associate ourselves with a specialized operator, but that company was more geared to the big city. We chose for our relation with the farmers. Because we needed to provide them with more products, more services, not only to him but to his entire family. With that idea in mind we created these 'farm centers,' with an integrated family vision."

In the late 1990s, as a transnational subsidiary, Empresas Iansa did not lose sight of its roots either. The new corporate strategy continued along the existing line of paternalistic business - the provision of all-encompassing farm services while forging a close relation with farmers. Though certainly not retreating from consumer marketing, a challenge for which the company seeks joint ventures with global trading and branding firms, Empresas Iansa concentrates its efforts on positioning itself as the unchallenged leader for agricultural development in Chile. A second point in the holding's mission statement, after value adding in the chain, is "to prioritize technological innovation for developing our company and, especially, our agricultural suppliers" (website, 2003). The message extended to the public is that Empresas Iansa aims at nothing less than modernizing Chilean agriculture, as if it were the Ministry of Agriculture or the national farmers association. In the recently created corporate magazine '*Management and Technology*,' directed at the farming community, Iansagro's general manager writes:

> "The solid relation forged between our company and the farmers is centered on our commitment to impulse (...) the technification of national agriculture, in the conviction this is strictly necessary if we wish to accomplish, in the long term, a modern and efficient sector capable of competing in a world of open frontiers... In this context is born the magazine *Management and Technology,* a new service that Iansagro puts at the disposal of the farmers, in order to enrich our communication channels [and generate] commitment to the great task we proposed ourselves - to modernize Chilean agriculture" (no. 1, July 1999; my translation).

To accomplish that 'great task,' Empresas Iansa strongly expanded the manpower and operations of *Iansagro*, Chile's leading distributor of agro-inputs and technologies. Iansagro completed its "integrated spectrum of farming solutions" (ibid.) by creating a department of agricultural development, now an officially recognized operator of public development programs, through which farmers may obtain subsidies and professional guidance for investments in irrigation technologies, soil recovery projects, and the like. At the same time, the agribusiness group created *Agromás* with the mission "to position Empresas Iansa as leader in agricultural financing." Offering credits, investment loans, crop insurances and credit cards, Agromás developed a portfolio of 140 million dollars amongst 80,000 clients in 2002 only, and is currently exploring the possibility to set up a genuine agrarian bank together with *Rabobank*, the cooperative bank of the Dutch farming sector. These new operations can be interpreted as attempts to consolidate and expand the structure of paternalistic business activity, by adding yet another series of financial and technological services to the existing "spectrum of solutions."

Contrary to what many farmers feared after the Spanish take-over, the company is extremely careful in maintaining a close relationship with the farming community. While continuing personalized assistance in the field, the company implemented a tailor-made online information system to administer individual business relations with each farmer, and a telephone consultation system through which farmers have access to their own records. In public relations, the company emphasizes its personalized working style and

commitment to 'rurality.' Billboards along the roads, proclaiming the company needs the best farmers, show a giant picture of the local manager together with his phone number (Figure 5.1). The company extends an annual 'award for Chileanity' to persons or institutions whose work helps preserve rural culture. In September 2001, in the presence of the President of the Republic, the Minister of Agriculture and four hundred farmers, the company signed a letter of commitment to "position Chile in 2005 as the world number one in sugar beet yields, with an average national productivity of 73 tons per hectare" (website, 2003). Clearly, Empresas Iansa is presenting itself as the big leader who will bring modernity and prosperity to the Chilean countryside, while cherishing a close, personalized relationship with the farming community. In half a century of turbulent and at times polemic development, the company's fundamental business strategy and single most important competitive asset have remained stable. Empresas Iansa does business in a paternalistic way, providing enlightened leadership and integrated farm support to a clientele of thousands of smallholder farmers.

Figure 5.1: Billboard of Empresas Iansa

5.2.3. Corporate culture: the big patriarchal family

Empresas Iansa's mission is to be "a world class organization composed of leaders and co-workers strongly committed to each other and the company." The company presents itself as an organization oriented towards growth, development and excellence, that does not lose sight of the trust and respect each person needs. From outside it is the leader committed to the well-being of Chilean agriculture, from the inside Empresas Iansa is a big patriarchal family, *una gran familia*, committed to the well-being of each individual staff member. Empresas Iansa is the rising sun, the promise of a better day, the hope for development and growth, accessible to anyone who wishes to be part of the family (Figure 5.2).

Figure 5.2: Corporate logo and values of Empresas Iansa

Our values:

- Excellence
- Respect
- Commitment
- Responsibility
- Trust
- Flexibility
- Honesty
- Identification *of personal projects with those of the organization*

Source: Empresas Iansa, website, 2003

Though human resources is a single department together with public relations, the value placed by Empresas Iansa on the person is not merely advertisement. Male employees play soccer and tennis on corporate sport fields, while female staff members enjoy child care services and gather in centers for cultural activities. For the family there are camping facilities throughout the country, and in case of personal problems one can call on the employee assistance program:

> "It is part of the Company's policies to provide assistance in labor and extra-labor issues to all staff members, whenever required (...) The aim of the program is to prevent, identify and resolve the employee's personal problems (...), to help him face difficult situations and to guide in issues related to life quality, [such as] emotional problems, depression, stress, tension, post-traumatic recovery, family difficulties, debts and budgeting, use of drugs, misuse of alcohol, and others."

Empresas Iansa distinguishes itself, within the Chilean context, by the degree to which it invests in human resources. Making full use of a public tax redemption mechanism, the company provides intensive training in the winter months. Field officers impressed me with their ability perfectly to reproduce the company's discourse and sensitivity to what can be told and what not. Commitment is rewarded through a flexible remuneration system based on annual evaluations of individual performance. The technicians, for instance, are evaluated on the basis of their farmers' performance. They receive bonuses for every improvement scored on a variety of indicators, such as yield, quality, mechanization, area cultivated, and indebtedness.

Typical of the working climate in Empresas Iansa are long records of service and, at the same time, a permanent internal flux of personnel, switching from one subsidiary to another, between functions, regions and countries. This flux is related not only to internal restructuring in the past decade, but also to an explicit corporate policy stressing excellence and innovation. Persons with leadership capabilities are quickly identified and may look forward to a long career within the company, whereas less talented personnel hope that the management finds them a place within the family where they may function well. The majority of the top managers directing the company in past decades, including many CEOs, started their career as young agronomists in the regions. Apart from

stimulating individual performance, the permanent flux of personnel is also intended to contribute to a strong corporate group identity, as explained to me by ex-CEO Ernesto Sahr:

> "After splitting up the company, each subsidiary began to take its own course and own personality in accord with its specific market. Yet what worried us most as a philosophy, was never to lose this synergy of working together, this Iansa identity, and to keep interpersonal relations between the subsidiaries, so we'd maintain open communication and support each other, because often in international business, new ideas or alliances may be passed between the sister companies."

Behind the rhetoric of *la gran familia* is a reality of strong authority relations, centralized control, and top-down decision-making. Working processes are fragmented and bureaucratized, involving multiple handoffs between different employees so as to allow for repeated checks and control. These Taylorist working practices stubbornly endured the company's attempts in the early 1990s to implement an integrated process approach to management. When embarking on the diversification strategy, the management faced the problem that the company's legacy systems and methods could not support the growth and diversity of the new structure of independent subsidiaries. Previously, as a sugar company, Iansa had only three products, while Proterra would retail 20,000 different products, and Biomaster produce 2,000 types of salmon feed. The management decided to implement SAP - a German-designed information system for business administration with the capacity to integrate independent companies as flexible modules into a single database, even across nations and currencies.

An online system, SAP requires every employee to work directly on the computer network instead of using paperwork, thereby creating continuous flow processes which cross employees and functional units. For example, when a sale is made, the sales executive enters it into the system, and that action automatically generates the bill, initiates transportation logistics and modifies the inventory. Clearly clashing with the existing management approach in Iansa - that systematically separated execution from responsibility - the implementation of SAP implied a process of cultural change, introducing new working practices and new attitudes of responsibility. In a confidential SAP case study report, human resource director Felipe Straus says:

> "The most challenging aspect was teaching the concept of integration. Iansa's previous work activities were fragmented, and there were steps built in for employees to check the work of others. An accounting employee would receive a bill, process it, and hand it off to the next person. The integrated view requires a whole new attitude of responsibility. You don't have a person standing behind you signing off on your work. Your data and input of data are your responsibility. You can't hand it off and say it's an accounting problem."

Though the case study report suggests a successful operation, I received different opinions from persons directly involved in the SAP project. In an interview, one of the collaborating consultants confessed:

"Iansa was so bureaucratic: everything on paper, and nobody wanting to take final responsibility. Employees generate information not because their superior needs to know, but just for later to say: "People knew I was doing it." In contrast, SAP assigns every employee the responsibility to enter data directly. Later the reports indicate who entered what data, when and what time. So the people are scared... One of the big problems was the lack of confidence in the system. The people never believed in the system and therefore did not enter all data. They would continue to work on paper, and only a week later they would enter the data. Hence, reports that were printed out did not match with reality. This created a vicious circle."

"SAP assumes that employees are trained to perform their functions. Not so in Iansa. They are a family, everybody knows each other, passing from one place to another. Not any person may work in Iansa; it has to be a person who is projecting himself to be part of the Iansa family. The people make career in Iansa, passing there and there, it is one big family."

Ernesto Sahr, heading the company at the time of the SAP project, commented to me:

"Iansa marked the introduction of SAP into Chile, so we had to 'Chileanize' the product, it was necessary to adapt it to our reality... [At the same time] the introduction of SAP was a change in our way of working, a change of mentality, it forces one to think of how things are done. It is an educational issue, a cultural issue, which never ends. People do not like to change things."

The 'people' Ernesto refers to are presumably the members of his board of directors. Mid 1997, Ernesto Sahr resigned:

"I left my function due to differences of approach with the board of directors. A personal thing, but in good relations. I did not feel comfortable so I preferred to retire... We had different approaches, different styles. My style is to work in teams, everybody integrated. One needs to trust the people one is working with. It is not a police organization. You need to give responsibility to the people. This is not always well understood. The issue at stake is personal motivation; the company is like a sort of family, based on trust. Of course, there are difficulties because of the size [of the company], but one either trusts or distrusts, there is no middle course."

After Sahr's retirement, Empresas Iansa returned to its familiar management style, reestablishing centralized authority and tight managerial grip, while restricting the SAP project in scope and usage. Leaving some modules without implementation, the system was reconceived as an informational rather than operational system. Nowadays, SAP runs parallel to paperwork administration. Many of its applications, like the automatic linkages between functional units, are not activated. My personal experiences with Tomatio indicate that working processes remain discontinuous and still involve multiple handoffs. Many decisions in the consultancy project could not be taken directly by me and my counterpart, the head of R&D, but had to pass through his superior, the technical manager. All public materials such as pamphlets and invitations needed the approval of the technical manager, and on several occasions, I was instructed as if I were an employee. Payment of fees would take at least a month after presentation of my bill, as documents were being sent back and forth between Talca and Santiago.

The new direction restructured the company as a matrix model, re-centralizing virtually all decision-making power in Santiago, from where the branch offices are steered and commanded. With strategic decision-making, planning, accounting, pricing, marketing,

human resources and public relations centralized at holding level, the branch offices are left to deal only with operational issues. The gap between Santiago and the regions is bridged only by SAP, and by the technical managers who visit head office every week and upon returning instruct their zonal managers and technicians. While closely familiar with colleagues in other regions, the staff at branch offices perceive Santiago as a distant power center where people in nice suits behind desks decide what must be done in the field. In the words of one of the technicians:

"The bosses in Santiago are idiots, very complicated. We don't know them. We are only a number to them. Last week, when they arrived at the barbeque, everybody suddenly went quiet."

Clearly, in this matrix structure, bottom-up communication is less fluent than top-down command. For instance, after the disastrous 2000-2001 tomato season, in which quality was low and world market prices down to US$ 600 - thus below cost price - Santiago reduced Tomatio's contract area from 4,000 to 1,500 ha. During the winter months, Tomatio was being informed by its foreign agents that the California harvest, the single most important factor determining world market prices, was below expectations, but until the very last moment Santiago remained deaf to Tomatio's communications. When the first seedlings were ready to be transplanted, the head office instructed Tomatio to contract as much as possible. That season, Tomatio contracted 2,000 ha and sold its paste at averagely US$ 850 per ton. This story, told to me by the technical manager, is not confirmed by world market price data, as presented in Chapter One. But the fact that such rancorous rumors are launched in the field says much about the relations between Santiago and the regions.

Hence, not only externally but also internally, Empresas Iansa is a paternalistic hierarchy portraying itself as a big family bringing growth and development to all its loyal members. The rhetoric of *la gran familia* sustains personalized working relations and a strong group identity, but obscures a reality of centralized decision-making, strict authority, tight control, and fragmented working processes.

5.2.4. Corporate failure: overconfidence in authority and big ideas

In a brilliant application of GGT to public management, Christopher Hood (1998) shows how different types of organizations tend to have a distinct pattern of failure and collapse. Invoking examples ranging from the Chernobyl nuclear accident to the war in Vietnam, Hood shows how hierarchies are prone to overconfidence in their top-level leadership, professional expertise, and organizational competence. Therefore they tend to set up ill-founded 'think big' projects in policy or technology. When sooner or later these projects collapse, they tend not to learn from experience:

"Authoritarian organizations are past masters at deflecting blame. They do so by denial, by rationalization, by making scapegoats, or by some mixture of the three... However it is achieved, the net result is that no real admission of failure or incompetence is ever made by those who are really responsible; hence nothing can be done about preventing a recurrence" (Dixon, 1976, cited in Hood, 1998: 39).

The result is a typical 'hierarchist Achilles' Heel' - a syndrome of repetitive large-scale organizational mistakes resulting from overconfidence in 'think big' projects that "fail to take account of the whole range of human behavior" (ibid.: 46).

Hood's generic conclusions neatly describe the problems Empresas Iansa has suffered in the past decade. In 1995, the sky was the limit. Recently restructured into a holding group, the company had just expanded its stock capital with US$ 120 million, was planning to invest US$ 230 million in the coming five years and expected to double total revenues to a magic US$ 1,000 million in 1999. At the end of that year, however, the company had suffered from a foreign take-over, a complete renewal of top-level management, a disastrous incursion into both Peru and Argentina, and a loss of capital of at least US$ 100 million. Excessive trust in organizational competence, overheated expectations, disregard of the human factor, and dramatically collapsing 'think big' projects are very precise indications of what the company went through.

The first set-back was Empresas Iansa's winning bid for *San Martín de Tabacal,* a state-owned sugar production complex in Argentina for sale at the beginning of 1996. After having won the auction, Empresas Iansa decided to withdraw its bid, because it received information about the labor situation in the complex. There were powerful workers' unions that could be expected strongly to oppose any attempt at raising the efficiency of internal operations. Considering that increased efficiency was the whole idea behind the privatization, it is odd that this detail slipped by the strategists of the holding group. The decision to withdraw by Empresas Iansa implied signing a cheque of US$ 3 million to compensate the Argentinean government.

A second mistake indicating lack of sensitivity to human factors was the company's decision in September 1995 to purchase *Icatom*, a tomato processing plant in Peru, for which it paid US$ 10 million. At first sight, the venture seemed a goose with golden eggs. A Peruvian company with preferential access to the EU and USA markets, Icatom had already been operating for more than three years, and was abandoned only because its owners had died in a car accident. With five years of operational experience in Chile, Empresas Iansa expected Icatom to reach an output of 60,000 tons of tomato paste per year through a year-round contract growing scheme. But the reality proved less manageable, and the company's faith in its technical expertise proved to be ill-founded. Icatom's ex-general manager Mario Salgado confessed:

> "We thought that production could be easily developed by applying the technologies we use here [in Chile]. Now we know our technologies don't work there, because the soils and climate are different. We thought we could sow year-round. Now we know that most periods of the year are complicated in terms of day-length, temperature and water."

But the major problem was the neglect of 'the human factor.' Ernesto Sahr commented:

> "What was lacking was the basic part - the relations with the growers. There was no information about the base - we lacked a social diagnosis. The problem was not the soil; there is a huge productive potential. The problem was social... The problem was their idiosyncrasy, their business capacity. For instance, the climate. The Peruvian climate does not vary, it is stable. So the people do not hurry, they are not forced to. When we had to sow, they said: "Yes, we have to sow..." But a month goes by and nothing happens, because for them nothing happens - the same climate continues. But when you have a plant, with everything programmed and your goals set, you cannot depend upon such a type. They have a different way of being, a tremendous indolence."

This 'indolence' also manifested itself in disregard for contracts. Unlike their obedient Chilean colleagues, Peruvian farmers indulged in massive piracy sales and incurred huge debts amounting, according to some sources, to US$ 3.6 million. The company was dumbfounded to discover that it disposed over few means to fight back. Land entitlement was blurred, law enforcement ineffective, and farmers a recognized, powerful group in society. Mario Salgado sighs:

> "It was complicated from a social-political point of view... This thing of cooperatives; it is not easy to have a private scheme after 25 years of cooperativism... Social groups like peasants are not easy to understand when they have power within society. That is a complication for a foreigner."

The company did everything possible to establish a contract scheme like in Chile. Ernesto Sahr notes:

> "We brought people from there to Chile to show how we work here, we made many efforts, but in the end you cannot change a people's idiosyncrasy. This meant we needed a different approach in the project... We contracted an American tomato expert who had lived there and he made us a new approach starting from scratch... We downscaled our operations, up-scaled the area planted, mechanized, purchased some land, and gained control over irrigation water rights. Things that we don't do here [in Chile], as we are not interested in possessing land, but there we had no alternative, as the farmers did not respect the contract scheme."

In 2001, Icatom produced little more than 6,000 tons of paste - only one-tenth of the originally anticipated output - while facing serious conflicts with a group of heavily indebted farmers who accused the company of swindling them. Empresas Iansa nevertheless insists that Icatom is viable and promising, especially given its new line of organic tomato paste. Current CEO Cristián Chadwick assures:

> "There was no swindling and neither can we confirm this number of 3.6 million dollars. What there is, are contracts voluntarily signed by two parties... The problem is with a minority of farmers. The company is getting back its investments. We are talking with the farmers, because we are interested in a long term relation... We are seeking an operation that is going to be extremely beneficial for both in the long term" (El Diario, March 2001; my translation).

A third incident expressing Empresas Iansa's overconfidence in 'think big' projects is the dramatic failure of *Proterra*. Conceived as the future of the agribusiness group - and perhaps also as the ultimate expression of its grandiosity - Proterra was projected to have

16 retail stores throughout the country, and total revenues of US$ 320 million by the end of 1999. However, in 2002, after having invested US$ 80 million in seven branch offices, Empresas Iansa sold the entire chain for the price of US$ 15 million. This expensive mistake expresses the company's obsession with being omnipresent and omnipotent, as well as its failure to take account of the real needs of the consumer. As a mass producer of bulk commodities, the holding group lack competence to satisfy changing consumer needs in an open, competitive market.

Besides these straightforward managerial mistakes, the group experienced a series of disappointments due to overheated expectations (Table 5.4). Smartening up reality appears a customary practice in contemporary stockholder-driven capitalism, as suggested by recent accounting scandals worldwide. But that does not take away from the point that Empresas Iansa systematically expects too much of new ventures it undertakes. All in all, failures that have occurred in the past years at Empresas Iansa are too many to be isolated incidents reflecting individual or collective incompetence. They fit a systematic pattern suggesting the working of an institutional bias. As a paternalistic hierarchy, Empresas Iansa suffers from overconfidence in its top-level leadership, organizational competence, and 'think big' projects.

Table 5.4: Overheated expectations of new business ventures by Empresas Iansa

Company	Anticipated results	Real outcomes
Tomatio (1991)	Contract area of 10,000 ha by 2000	Historical record: 4,200 ha in 1999
Icatom (1995)	Output of 60,000 tons by 1998	Historical record: 9,000 tons in 1996
Proterra (1996)	Revenues of US$ 320 million in 2000	Six years of red figures, sold in 2002
Sofruta (1997)	Revenues of US$ 150 million in 2002	Real revenues: US$ 23 million in 2002
Bonduelle-Iansa (1997)	Contract area of 10,000 ha by 2002	Historical record: 1,200 ha in 1998
Corporate holding	Revenues 1997: US$ 750 million Revenues 1998: US$ 750 million Revenues 1999: US$ 1,000 million *(anticipations of 2 years in advance)*	Revenues 1997: US$ 516 million Revenues 1998: US$ 586 million Revenues 1999: US$ 600 million

Source: Annual reports Empresas Iansa, 1995-1998; website 2003

5.2.5. Tomatio as a paternalistic hierarchy

Founded and raised by Empresas Iansa, Tomatio inherited a paternalistic thought style which shapes the company's approach to supply chain management. As we saw in Chapter One, the tomato chain is steered by principles of patron-client institutionality - i.e. asymmetric relations, interlinked transactions, centralized control, dyadic command, differentiated treatments, and weak horizontal connections.

These managerial practices are perhaps not exclusively related to inherited thought styles at Tomatio. A certain degree of patron-client organization appears inherent in the framework of contract farming. Empirical studies show that centralized authority, along with individual bargaining and discouragement of grassroots organization, are common practices of agribusiness control in contract schemes the world over (e.g. Clapp, 1988; Glover, 1987; Korovkin, 1992; Vellema, 1994). But on the other hand, there are cases where contract growers are well organized *vis-à-vis* the industry, not only in Europe with its tradition of strong rural cooperatives (European Commission, 1975), but also in developing countries, such as in Unilever's palm oil contract schemes in Cameroon (Konings, 1998). Whether contract growers are organized seems to depend partially on technological and logistical factors - e.g. dairy supply chains in developing countries are commonly based on smallholder contract farmer organization (see White, 1997, on Java, and Barría et al., 1991, on Chile). The influence of technical factors upon the social organization of contract production is well documented by Vellema (1999, 2001). Studying Pioneer's activities in the Philippines, he shows how unforeseen technological uncertainties in hybrid maize seed production induced contract growers to challenge the company on its scientific authority, and to urge for more room for bottom-up feedback in the management of the contract scheme.

But cultural factors play an important role as well. Comparing contract schemes in Spain and Japan - the former organized in dyadic and the latter in cooperative structures - Asano-Tamanoi (1988) concludes that the social organization of contract farming is shaped by the historical relationships between farmers, state, and industry. As far as Chile is concerned, Tomatio's contract scheme does not differ much from those of other firms. Most contractors tend to assume unilateral control over crop production and chain management. Likewise, fragmentation of growers, blurred task divisions, ambiguous enforcement of standards, and institutional distrust are warp and woof in Chilean agri-food chains (CEPAL, 1991, 1992b). Indeed, from the perspective of this dissertation, contract farming constitutes an institutional arrangement for the continuation of patron-client organization on the Chilean countryside. The epilogue to this study will revisit the question whether patriarchal organization is specific to Chile, or a more general feature of contract farming across the world. At this point, the aim is simply to analyze those elements of Tomatio's contract scheme that point to the working of a paternalistic institutional thought style.

The eye-catcher in the tomato chain is undoubtedly the extraordinary degree of operational control exercised by the company. Its intervention in crop management is such that task divisions get blurred, resulting in inopportune decisions. Aware of this, the zonal managers justify their approach with a 'naturalizing formula:'

> "We have always been a mama to the farmers, taking them by their hands - a very paternalistic attitude, necessary because of the farmer idiosyncrasy. Farmers don't make themselves responsible for their crop. Often, they are not even in the field, and simply contract other persons to do the job for them. Many farmers ask us: "When are you coming to see your crop?" But the crop is theirs!"

> "In Chile, we have a cultural problem with the farmers... It is a generational problem. It will take fifteen years to surmount the current problems - we have to wait until a new, better educated generation starts farming. Our supplier development program, our efforts at mechanization, etc., are no real solutions."

Though it may be true that farmers behave irresponsibly, Tomatio's drive for control is, as was argued in Chapter One, more related to the company's institutional bias than to farmer idiosyncrasy. This is not just a theoretical proposition from GGT but also to be induced from the following three empirical observations. First, the opinions about farmers expressed by Tomatio's staff are inconsistent. When asked to explain the chain management model they emphasize how irresponsible, incompetent, and indolent farmers are. However, when asked about positive aspects they mention long-standing relations, good communications, mutual trust, disposition to follow recommendations, and sense of hierarchy. These blunt contradictions point to selective perception and memorizing - the kind of processes that are at the core of institutional thought styles (cf. Douglas, 1986).

Second, there are slight but important differences of opinion between managers and technicians. Managers, more strongly identified with the institution and its policies, tend to speak more negatively about farmers than technicians, who work directly with farmers, and are more in touch with field diversity. Asked to quantify their trust in farmers on a scale from 1 to 7, managers gave a 4 on average, whereas the technicians averaged a 5.2. Finally, Tomatio treats machinery contractors, most of whom are titled professionals, the same way it treats farmers - as incompetent and irresponsible. On the assumption that centralized direction is needed for an orderly harvest, the company takes direct control over machine harvest operations, as was shown in Chapter One. Unless machinery contractors suffer from the same idiosyncratic shortcomings as growers - which seems unlikely given their university degrees - it is not the congenital irresponsibility of growers and contractors, but rather Tomatio's paternalistic thought style that underlies its excessive interference in the tasks of its chain partners.

Another element pointing to Tomatio's institutional bias is its classic patriarchal style of command, namely, the personalization of rewards and penalties. The tomato chain is not a bureaucratic hierarchy with standardized rules and procedures, but a paternalistic hierarchy in which rules are re-negotiated and resources re-allocated in the realm of personalized relations between staff and growers. Quality control is the most fascinating issue in this respect. Though objective enforcement of quality standards appears crucial to a company's credibility, one of the zonal managers had no problem admitting that the system is subjective:

> "Last year, trucks with more than 8% mould, we let them pass. That year we were selling all our paste, imagine, we were selling sub-standard paste to the USA! This year it's impossible to be flexible. Farmers are calling me all the time, asking me to defend them against the penalties. But there is no way. The people from industrial production don't listen to me, they say: "We have orders from above." They are rejecting four trucks a day, yesterday even six. Simply because we cannot sell that paste. Last year we could, but not now. There is no market for sub-standard paste."

In my survey, 86 percent of managers and technicians asserted that quality control is unreliable, the sample unrepresentative, criteria inconsistently applied, and personnel not knowledgeable. Nevertheless, 50 percent responded negatively to the proposition that an objective, inflexible system of quality control would be better. The technical manager commented:

> "Quality control cannot be externalized because we would lose flexibility, and there would be fraud by the farmers. External control of our operations is possible however."

Another aspect illustrating Tomatio's institutional thought style is how the company makes use of information and communication technologies (ICT). At corporate level, Empresas Iansa disposes over a historical database that contains all technical and economical data technicians have been generating in their field visits - for sugar beet since the 1980s, for tomato since 1991. Ernesto Sahr describes the scope of the system:

> "The database contains the agrarian history of each grower. An enormous number of variables, like soil type, sowing period, varieties, machinery, nutrition, pests, diseases, yields - in short, all the information gathering in visits to the field... All this information is there, since the 1980s, but little use has been made of it. All information about the performance of varieties, the types of diseases that occurred, etc. - it is all there, but used only to determine prices, costs, and profitability."

According to the ex-CEO, the sole use made of this incredibly rich database is in calculating the minimum price at which the company will be able to contract the amount of farmers needed to comply with established production goals:

> "With the model you determine at what price you receive what amount of raw material. It's an estimation with a precision of about 5 percent... You know the farmer's fixed and variable costs [and] you enter the prices of alternative crops. In Temuco, for instance, the alternative is wheat. You know the margin of wheat. So in the model you put the margin of sugar beet which has to be, say, 1_ times the margin of wheat. The model is simple, but the database is enormous, that's why the system works."

In recent years some new functions have been assigned to the database. It served to develop and launch a new product - crop insurances. This is a virgin market in Chile, as no Chilean organization ever disposed over the elaborate ICT resources required for econometric products. Furthermore, in 2000, the database was connected to SIAGRI, an on-line information system for supply chain management. Featuring detailed records of each and every aspect related to tomato growing, the system offers huge opportunities to improve the performance of farmers, provided the information is shared with them. Nonetheless, classifying most information as confidential, Tomatio's interest appears to lie only in greater control over the supply chain. Instead of speculating how SIAGRI might help to define research priorities or stimulate farmers' learning processes, the head of R&D smacked his lips thinking that:

"In the future we may install GPS on all trucks and gondolas so we know exactly what is going on."

A further illustration of Tomatio's bias is its style of chain directorship. Whereas other tomato processors define tomato processing as core business, and technical assistance as a sheer necessity, Tomatio sees business in the provision of technological products and expertise. Tomatio is not only a producer of tomato paste but also a market outlet for the products offered by its sister companies Iansagro and Agromás. Inspired by these corporate business interests, Tomatio exerts pressure upon its growers to purchase corporate agro-chemicals, technology and financial products. Growers complain:

"The problem is that the company tries to clench the entire chain. It makes profits on all sides. It should focus on producing paste, and stop bothering itself with selling other services to the farmer. The problem is that the technological thing is a separate company with separate interests. Other companies try to lower the costs of the farmer. But not Iansa - for them it is business."

"Being a big farmer, one has more guarantees, one can demand things. We don't want to lose this good treatment we have from the company... This year I bought my inputs at Iansa knowing they are cheaper elsewhere, simply because the company has antennae, and knows where one walks. They get angry very easily, and then give you a different treatment, less facilities, more penalties. They don't look you in the eyes anymore."

Discouraging growers from doing business with third parties and intervening in their deals with machinery contractors, Tomatio manages the tomato chain as if it were a *hacienda*. Whereas the *hacienda* generated wealth by providing a community of dependents with total life-support in exchange for loyalty and labor, the tomato chain generates profits by providing a community of tomato growers with all-encompassing farm facilities in exchange for loyalty and tomatoes. Tomatio's contract scheme thus reproduces the 'total institution' - all activities take place under its roof (Goffman, 1984). Like an enlightened landlord, Tomatio perceives its role in the chain in terms of providing all-encompassing crop services, leadership, and progress to a clientele of needy farmers. In a farmer workshop, the technical manager preached:

"Times are changing and the farmer has to change along. For us as a company, it is important that you keep improving your standards. We want to offer you the best service. Because that is what you want. Perhaps we pay a bit less, but the fact that we offer integrated services with a long-term vision will mean that you will prefer working with us."

Consequently, Tomatio is the only tomato processor with a focus on mechanization and up-scaling of tomato growing. Whereas other companies still appreciate labor-intensive production systems, Tomatio encourages its growers to implement a California-like crop system. In 1999, Tomatio's technical manager declared in the corporate magazine that: "We think that within five years, 75 percent of our tomatoes will be mechanically harvested." However in the season 2002-2003, not even one-fifth of Tomatio's crop was

machine harvested. Only few growers are interested in machine harvesting because it is far more expensive than manual harvesting. Meanwhile the machinery contractors are incurring operational losses and heavy debts with the company. The prime factor underlying this deplorable situation is Tomatio's overconfidence in its own expertise and competence, as was shown in Chapter One. Imposing itself in-between the farmers and the machinery contractors, the company takes away all performance drives that might stimulate contractors to improve their services. Furthermore, with its initial choice for Sandei machines, the company opted for a non-optimal technological path, into which it became locked.

The machine harvesting fiasco is not the only case where Tomatio suffered from misplaced trust in its own expertise. A textbook case of hierarchist failure is how the company dealt with the massive fungal infection of tomato seedlings in 2000-2001. Most tomato processors, including Tomatio, have outsourced their production of seedlings - an intelligible decision from the point of view of quality and core-business, less intelligible is how it was put into practice. For twenty-five consecutive years, the production of seedlings for the entire Chilean tomato industry - more than 12,000 ha - has been centralized into a single plot located in a frost-free valley in the 6th region. With the industry's full confidence resting upon it, the seedling scheme was in fact a phyto-sanitary time-bomb waiting to explode. The inevitable happened in the season 2000-2001. The seedlings provided to the growers were massively infected by a fungus - after transplanting they tended to 'fall' and dry up. One month after the first transplanting, the head of R&D at Tomatio - responsible for seedling production - confessed to me:

"Yes indeed, some seedlings arrived bad. We are doing everything we can to analyze the problem, we are sending samples to Santiago and the USA. But nobody knows what's happening. Other companies have the same seedlings from the same nursery but don't have the problems we have."

The situation in the field was alarming. The farmers in my survey lost on average twenty percent of their crop. For some it sufficed to replant the gaps left behind by the dried up plants, but others had no other option than to harrow and replant entire fields, thereby incurring additional labor costs of US$ 100 per ha. Whether replanting or harrowing, all farmers had to fumigate between four and six times, equivalent to another US$ 140 per ha. On top of that, the crop did not recover completely, hence, yields were bound to be affected. Farmers were devastated, not in the first place by what had happened, but more by the way the company dealt with the issue. Though the company supplied new seedlings for free, the farmers had to bear all other additional costs. They sighed:

"I like to be positive but now I cannot. The company doesn't assume its responsibility. I had to harrow 14 ha completely, and have 30 percent higher costs on other fields. Why does the company charge 108,000 *pesos* for a liter of *Amistar* when I have seen it at sale for 96,000 *pesos* elsewhere? Why do they have to punish us even there? No, this thing is very unfair."

"I still trust their technical expertise, though I think they made mistakes and were too casual about it. The problem is rather administrative. The company should assume its responsibility. But all managers are defending their asses. No department wants to lose, so in the end, we farmers lose."

The technical manager responded to these complaints:

"We do accept responsibility, like we always do. We are supplying new seedlings for free. We sell the chemical at 101,000 *pesos*, that's the cost price. Yes, true, initially at 108,000 *pesos*, but that was an accounting error."

Besides the issue of costs, settled individually by each farmer, there was the question how this could have happened. Why had the company's response been so slow? Why were the growers made to plant seedlings that were known to be infected? The technical manager responded that farmers were authorized to reject seedlings but they themselves agreed to transplant them. But farmers said:

"I told them I didn't want to plant. They told me I had to. So I planted under protest, telling them it would be their responsibility. I planted, discarding one out of every two seedlings. Nonetheless, I have all these losses and extra costs. And did they assume responsibility? Of course not, get real, we are in Chile..."

"The problem is that the company didn't recognize its fault at time. There was no honesty. The technicians denied there were problems even though we told them about the spots. They told us not to make such a fuss about nothing. What could I do? One supposes they know better. And now it is too late. I already lost..."

But hierarchies are masters of the art of deflecting blame. The technical manager responded to these complaints:

"The instructions we gave were as follows. All seedlings with a spot on the stem were not to be planted. But seedlings with a spot on the leafs could be planted. However, I don't know what the technicians were telling on the ground."

The losses produced by the fungal infection would not have been so high, had the company been less insistent on its authority and expertise. In this case, but also in many other respects, Tomatio's compulsive desire to control the chain absolutely is more of a problem than a solution. In my survey, one of the zonal managers admitted:

"Everything is in the hands of the company, which surely makes the process a little inefficient. The company should liberate the farmer, intervene less in the production process, and categorically say no to financing the farmer."

Later in this chapter, when discussing the tomato chain platform, we shall see whether Tomatio is really capable of surmounting its paternalistic thought style, giving up absolute chain control, and 'liberating' its chain partners.

5.3. Tomato growers as fatalists

To say that farmers are fatalists is a dangerous thing for a Wageningen scholar. It goes directly against the Wageningen paradigm in which farmers tend to be viewed as skillful and knowledgeable entrepreneurs actively responding to new opportunities in a changing environment, as emphasized in the 'actor-oriented approach' of Norman Long (1984, 1989), and the 'farming styles approach' of Van der Ploeg (1990; Van der Ploeg and Long, 1994). Yet saying farmers are fatalists does not necessarily imply, from a GGT point of view, that they are passive victims at the mercy of insatiable transnational corporations or over-intrusive state agencies. Rather it means that farmers, as a social group, behave like isolated individuals encapsulated in, and fragmented by, a high grid environment, to which they actively respond with fatalistic strategies for action. Fatalists deploy the 'arts of resistance' and the 'weapons of the weak' (Scott, 1985, 1990).

Individual tomato growers may well be Schumpeterian entrepreneurs at the forefront of new technologies and profit opportunities or, alternatively, obedient servants comfortably nestled in an agro-industrial hierarchy. Nevertheless, as a social group, tomato growers must be characterized as fatalists because their social organization is one of high grid and low group. They score high grid because, being financially dependent upon agribusiness credits, they sign a unilaterally defined contract through which they surrender themselves to Tomatio's authority, and cede entrepreneurial autonomy. They score low group because, with the exception of a few isolated and ineffective initiatives by a handful of farmers in specific localities, the tomato growers are fragmented, unorganized, and incapable of posing collective demands *vis-à-vis* the agro-industry. As will be illustrated below, this sustains a fatalistic thought style which underlies their attitude toward the tomato chain as well as their strategies for action.

5.3.1. Farmers' chain experiences: "fairness is not in this world"

The essence of the experiences of tomato growers is the feeling of being at the mercy of Tomatio. The growers perceive that the company has hegemonic control over each and every parameter in the production chain, and that it abuses that power to enrich itself at the expense of the growers. The growers feel subordinated to a contract regime that is unfair in four fundamental ways. First, forced to endure excessive intervention in farm management by the technicians, the growers feel disrespected as crop specialists. In my survey, farmers were asked to quantify, on a scale from 0 to 100 percent, their current authority in a series of crop management decisions, as well as the authority they would like to have (Table 1.4). The respondents felt to have 42 percent of control in crop management, but desired 66 percent of control. Given that my sample comprised top growers only, it can be expected that other tomato growers would experience an even lower level of control. One respondent commented:

"There is little trust in farmer capacities. The technicians steer too much. It always has to be their way, while they know there are many alternatives. They should listen more to the farmer, and respect his empirical experience."

Second, being subjected to the terms of a unilaterally defined contract, the growers feel disrespected as business partners. Their share consists of high risks and low margins, whereas the industry enjoys all power and runs no risks. Sixty-five percent of the respondents in my survey said they had little confidence in the future because the crop is 'manipulated' and not profitable enough. Two remarked as follows:

> "This business is ill-defined because the price of inputs is in dollars and that of tomatoes in *pesos*. With the dollar rising from 420 to 750 *pesos*, every year the company is paying less and charging more. The costs of labor and inputs have sky-rocketed, but the price of tomatoes has not increased one single *centavo*. How can the company expect us to continue farming? What's left for us?"

> "The company steers the whole system. It does what it wants. Because of their credit, we have to accept it all. They make a contract that transfers all risks onto me, make the program, define the calendar, tell me where to buy inputs and services, and I cannot do anything but obey. The company should lower its profile. Instead of giving us a small margin, they should give us the opportunity to make money."

Third, forced to purchase all products and services from Tomatio, the growers feel disrespected as independent entrepreneurs. The respondents felt to have only 9 percent of control in business decisions, but desired 62 percent of control (Table 1.4). One farmer commented:

> "My company cannot grow on the basis of tomato growing. The industry does not take me seriously as a businessman. I cannot have confidence in the future, I cannot make projections. They should let me free, they should give me a contract with weekly deliveries, so that I can plan. They should let me do direct business with the machinery contractors. The industry should be open for dialogue instead of imposing its things. The small farmer is the problem. The company is wasting energy in things it should not bother about. It treats us all as if we all are small farmers."

Fourth, subject to standards and procedures that are unilaterally defined and arbitrarily re-defined by Tomatio, the growers feel disrespected as chain partners. They strongly question the company's reliability, and have little confidence in the rules and criteria that regulate the tomato chain. Sixty-five percent of the respondents expressed zero trust in quality control. Some assertions are listed:

> "The industry does not care. It does what it wants. It never loses. It fixes the rules and changes them halfway, if that's better for them [sic.]."

> "Our biggest problem with the industry is quality control. Every year, the discounts get higher. There is no transparency. Of course, quality control is being manipulated - it is being done by employees of the company! (...) The company normalizes its costs through the discounts at quality control. We continuously ask ourselves: how did they swindle us this time?"

> "The discounts are a joke. The samples are not representative. We had a truck rejected because of mould. We sent it back to the plant and guess what? It passed with minimal discount. Another day, we re-sent a rejected truck, and it passed for peeled tomatoes! [for which quality standards are much stricter]"

> "The people in charge [of quality control] don't allow me to enter. They have no criteria, they say their bosses don't allow farmers entering. I cannot protest much because they get pissed off easily and then the penalties increase."

The tomato growers have strong reasons for complaining. As demonstrated in Chapter One, it is true that they submit to an omni-potent hierarchy and are largely "classified out of the decision-making process" (Gross and Rayner, 1985: 9). Nevertheless, if things are really as bad as farmers say they are, then why do they continue to embark on Tomatio's contract scheme? Confronted with that question, farmers said they were talking in general terms, and that they themselves receive a special treatment. Eighty percent of the farmers mentioned 'good personal relations' as a positive aspect of their business relation with the company. On average, they have been growing tomatoes for seven years, and 5.5 years with Tomatio. On a scale from 1 to 7, farmers quantified their (institutional) trust in the company as 3.3 but their (personal) trust in the technicians and managers as 6.3. Some comments:

> "No, for me it's different. I have a good 'arrival', I meet with a kind reception."

> "I have always been among Tomatio's star farmers. I am friends with all the idiots there. I get special favors."

> "We are lucky to be big and listened to. We never suffer losses in the harvest. The problem during harvesting is the availability of vouchers and machines. The small farmer is the loser, he inevitably loses part of his crop. But being a big farmer, one can demand. Last year, the plant was down, there were queues of 16 hours and they were stopping the harvest. But I complained so much that they sent me three machines to harvest my overripe tomatoes. They also sent a young fellow to slow us down but we ate him alive, the poor guy, he came there just to hear abusive language."

The farmers also emphasized their appreciation of the guaranteed financing, sales and payment that come with the contract, pointing out that the crisis-like conditions of cash crop farming force them to embark on contract farming:

> "Nowadays everything is bad. There are no alternatives."

> "One has to work under the protection of a [contracting] company. At least I do. Too often have I been cheated by intermediaries... You can say whatever you want about the industry, but one thing is sure - they pay me exactly on the 12th of each month."

> "Farming is not a business; it is a way of living. We are used to the fact that they make us small and live like poor."

> "How can I farm without a contract? The banks don't even perceive the farmer!"

Though these statements may just be a way of talking down their business - as any businessman tends to do - the tomato growers are right in pointing out the deep crisis in Chile's domestic agricultural sector in the last decade. Between 1987 and 1996, the real prices for traditional annual crops, such as wheat, rice and maize, dropped 40

percent on average (Berdegué, 2001). The impressive growth of Chile's export sector - mostly under contract arrangements - cannot be seen separately from the crisis in the domestic sector (Gómez and Echenique, 1988; Kay and Silva, 1992). For want of cash crop alternatives, farmers revert to contract farming - "a contract appears not as a choice but a necessity" (Clapp, 1988: 14). Chilean smallholder farmers are not alone in this. The lack of credit, market access and technology shapes smallholder production decisions across the entire continent of Latin-America. Regional studies explain the dramatic expansion of contract farming in the continent in relation to 'market imperfections' on the countryside, such as the lack of credit, market information, and technical expertise (Key and Runsten, 1999; CEPAL, 1995).

Nonetheless, the assertion of being exploited sounds somewhat odd from the mouth of a person who harvests 100 tons of tomatoes per ha, equivalent to a net profit of US$ 2,000 per ha. Likewise, the assertion of being disrespected seems contradictory, when pronounced by a person who owns 200 ha of crop land and is capable of getting three harvest machines whenever he demands. The typically fatalistic perception that "fairness is not in this world" (Mamadouh, 1999: 400) seems out of place for this elite group of agrarian entrepreneurs. My survey included Tomatio's thirty-five best farmers only, some of the finest agrarian entrepreneurs at regional level, many of them well educated and capitalized. The respondents cultivated 28 ha of tomato on average, yielding 85 tons per ha, while the revenues from tomato growing represented only 40 percent of their total farm revenues. This implies that their average annual profit may be around US$ 73,000 - not a bad income at all, and certainly not by Chilean standards. Yet they all tended to evaluate the tomato chain in terms of submission, exploitation and fickleness, while assessing Chilean agriculture in terms of crisis and hopelessness.

These discrepancies between world-view and real material conditions - far too consistent and sophisticated to be dismissed as deliberate lamentation - can be understood as the product of a fatalistic thought style stemming from their high grid-low group position. Organized as isolates, the contract growers tend to approach their environment with distrust and negativity, even though (some of) their personal experiences indicate otherwise. Subject to the asymmetry and arbitrariness of 'patron-client institutionality,' the tomato growers maintain a fatalist thought style which exists as "a cocktail of lack of enthusiasm, lack of disposition to take responsibility or to plan ahead" (Hood, 1998: 44).

5.3.2. Farmers' resistance strategies: short-term individualism

Feeling victims of unfairness, the tomato growers have developed a series of resistance strategies that center around one single principle. "The central principle on which a fatalistic society operates is a rejection of co-operation in any form, as something likely to have unpredictable and possibly unpleasant outcomes" (Hood, 1998: 148). Instead of

trying to make things better through collective effort - by gathering with colleagues and searching for dialogue with Tomatio - the growers indulge in short-term individual resistance. Their most rewarding livelihood strategy is the rule that Edward Banfield (1958) defined as 'the moral basis of a backward society' in his classic sociological study into a poor community in southern Italy. This rule runs: "Maximize your own material, short-run advantage; assume that other will do likewise." The tomato growers practice this typically fatalist resistance strategy in the guise of individual lobbying and swindling.

The strategy of individual lobbying - indissolubly connected to contract farming and clientelism - consists of forging a relationship of friendship and trust with technicians and managers in order to receive better treatment. Within these personalized relations, the growers renegotiate and subvert the terms of the contract to their advantage (Watts, 1992; Clapp, 1988). The rewards at stake are manifold, and may include additional credit for land rent and long-term investments, better (just-in-time) technical assistance, more tolerance in quality control, higher yielding varieties, a ready ear in case of problems, and greater availability of harvest vouchers. In earlier work, I even encountered farmers allowed to sell overripe consumption tomatoes to the industry (Peppelenbos, 1996). These things may seem tiny details left open by a contract in which the fundamental business terms are already defined. But they are, in fact, the kind of details that determine the difference between making profit or losses. It is, therefore, not strange that contract growers follow an extremely careful wait-and-see policy with regard to initiatives that might jeopardize their relationship with the company's staff, such as any attempt at collective negotiation. Most farmers display a strongly fatalistic attitude toward collective initiatives:

> "Negotiating is suicide. The company has a million ways to get back at you. The best thing is to be friends with them."

> "Organizing? Why? In the end, it won't result in anything. The industry manages this business. If all farmers in Chile were united, then we would be able to fix the price. But how? Impossible. Agriculture is managed by businessmen, not by farmers."

> "Last year we wanted to organize here in Linares. There were two meetings, but in the end nothing happened. The company received us, we arrived with a proposal about the price in US$, and about taking us into account when formulating the contracts. But in the end nothing happened, nothing at all. The people are afraid their contracts will be discontinued. There are few alternatives."

There are two or three localities where large-scale farmers have organized to purchase inputs collectively and get a better price, but these one-issue initiatives have not resulted in the establishment of genuine farmer organizations projecting themselves as business partners of the industry. Skepticism and distrust prevent the farmers from investing too much time and resources in organizing as a guild - not in the last place because the industry quickly stamps out such initiatives through effective 'divide and rule' policies,

offering deals to individual farmers, and isolating or ejecting farmers who stir up their peers by publicly slandering the company. I personally experienced some of these political strategies when I got involved in organizing a study group of tomato growers. We had made soil analyses to determine tailor-made fertilization formulae - far cheaper than the standard mixtures offered by the industry - and purchase collectively from the company. The company, however, refused to do business with us, asserting that if our formulae were false, the growers would complain about bad harvests, and if they were right, the growers would complain as well - about the expensive fertilizers they had been buying for years. The company instead offered each farmer a 10 percent discount on the standard mixtures, which they were delighted to accept. The farmers got a better deal, but the idea behind the initiative - to develop a group of farmers professionally cooperating in technical issues - was effectively stamped out by the company. Hence, even though there are attempts to face the industry collectively, in the end the growers act as isolates, and lack the perseverance required for true organization.

Besides individual lobbying - and somewhat in contradiction to it - growers indulge in fraud and swindling. Fraud, for obvious reasons a sensitive topic, seems to be rather restricted but rigorously dealt with. One form of fraud is bribing the staff in charge of quality control. One farmer told me:

> "We farmers, as a branch, lack loyalty and honesty. The barefaced ones make it worse for the rest. Two years ago, farmers paid 5,000 *pesos* per truck to have less discount. That's why quality control is so strict nowadays."

Another form of fraud, less controllable, is piracy sales. The agricultural manager of a competing industry, for more than 25 years in the field, said to me:

> "From the outset, the industry worked with contracts; it has always been like that. The difference is that nowadays, the contracts completely tie up the farmer... As time went by, the farmers became more and more devilish... Farmers, whom I had provided with lots of credit, would sell their tomatoes not to me but to others. All that money was lost. This happened so often, and at all companies, that we had to change the contracts. Today's contracts tie you up completely."

He claimed the problem is restricted nowadays, because the industry agreed some years ago not to accept piracy sales by farmers under contract:

> "It's not that grave anymore, though there are specific cases of barefaced farmers. Among the 200 farmers with whom we work, there are no more than 2 or 3 who are trying to rob us by selling to a third person. But that third person has to exist. Piracy occurs because other firms lack farmers to fulfill their programs. The industry itself created the vice. Nonetheless, nowadays, the managers maintain good contact and we made an agreement. Because this year they might do it to me, but next year I can do the same to them. It is counterproductive. Therefore we arrived at an agreement to prevent piracy."

Nevertheless, during the harvest period, local newspapers display advertisments from

dehydrating firms offering double the price for processing tomatoes. Piracy sales cannot be banned completely (see Connings, 1996, on the influence of piracy sales on rural credit markets in Chile).

In contrast to fraud, swindling is widespread and a popular topic of conversation. It is good for a laugh and to show one's cunning. Monkey business is so common in Chile that there is a slang word for it - *la cuchufleta*. This word presumably comes from *la cuchuflé*, the name for a type of biscuit shaped as a hollow roll filled up with caramel. The shape of the biscuit denotes the technique of the swindle - there is a hidden 'surprise' somewhere. Tomato growers swindle by selling extraneous materials like they were tomatoes. One technique is adding water to the gondolas, but this *cuchufleta* was eliminated in 1999 through a change in delivery procedures. Nowadays, before weighing the trucks, the lock-gates of the gondolas are opened so that all liquids flow away, whether tomato juice or water. This new procedure, unilaterally defined by Tomatio, put chain relations under severe pressure for a while (see below).

Another *cuchufleta* is turning off the electronic selectors of the harvest machines when filling up the bottom and corners of the gondolas, and turning them on again when the center and top of the gondolas are being filled. A beautiful layer of shining red tomatoes thus conceals a cocktail of green, red and overripe tomatoes mixed with the top soil of a farmer's field. This *cuchufleta* is relatively difficult as it requires the farmer to bribe or otherwise persuade the operators of the harvest machines - who are not employed by the farmer but by the machinery contractor - to turn off the selectors. A last technique, the most important one, is practiced in manual harvesting. It consists of emptying out several bins of green tomatoes into the gondolas before filling them up with normal bins. The number of green tomato bins varies from one to six per truck, depending upon the discounts being given by the company. As one truck carries fifty-five bins, this *cuchufleta* can profit up to US$ 350 per ha - 50 percent of normal profits - whereas its average might be around US$ 75 per ha. Though it is difficult to assess its real extent, farmers find it a normal thing to do:

> "We all expect the other to cheat us. That's why we all cheat."

> "The discounts are inconsistent and completely unrelated to how I harvest my tomatoes. That's why I do the *cuchufleta*... But never more than two bins per truck."

Also technicians and managers regard la *cuchufleta* as common practice:

> "Previously, I put my hands into the fire for all my farmers. Now, for none of them. I don't defend any of them against my boss because they all do the *cuchufleta*."

> "The farmer thinks of yield only. Vital to him is that no tomato remains on the field. That's why we make surprise visits during the harvest: to check what they do with the green tomatoes."

> "The farmers don't like mechanized harvesting because the machines discard all green tomatoes. It takes their game away..."

Obviously, the *cuchufleta* is easily discovered when the trucks are being unloaded, but only in extreme cases does the industry return an 'arranged' truck. Unwilling to declare

a full-scale war on the farmers, Tomatio's strategy appears geared at commanding rather than eradicating the *cuchufleta*. Instead of systematically returning all arranged trucks, Tomatio sends its technicians off on random surprise visits, and the managers then talk with farmers who have been caught. Tomatio's premature mechanization policy, unintelligible from a cost perspective, may also be explained as an attempt to restrict opportunities for swindling (Peppelenbos, 2000b).

Full elimination of the *cuchufleta*, a long-standing Chilean tradition, is besides being an impossibility, not a necessity for the industry. Rather than a recognizable quality product, tomato paste is an anonymous bulk commodity. Three grades are distinguished - fancy, standard and sub-standard - on the basis of two quality standards - i.e. mould and color. On-line production statistics indicate whether or not the company has to increase the strictness of quality control. Only in borderline cases, when the grade is likely to be improved by increased strictness, will the company take rigorous action against la *cuchufleta* by returning arranged trucks. In all other cases, such action is superfluous. In control of all business parameters, the industry has infinite ways to compensate itself for the losses generated by the *cuchufleta*. In the end, the growers themselves pay the costs of swindling - through a lower price, higher costs, increased interests rates, or new delivery procedures. In the meantime, the tolerance of *cuchufleta* provides the company with yet another mechanism for control over the growers. Indeed, tolerating individual swindling is central to agribusiness control in contract farming:

> "In order to gain the benefits of petty pilfering, the growers concede the justice of the relation as a whole... The struggle is displaced from the relations of surplus extraction which underlie contract farming to the division of tiny amounts of surplus, and this displacement can generate consent to the general framework of exploitation as a whole" (Clapp, 1988: 32).

This reveals the true nature of swindling as a fatalist strategy of resistance. The *cuchufleta* falls into the category of the fatalist 'cheats at work' Gerald Mars (1982) applies to people working in high grid-low group environments - i.e. stealing of money, time, objects, and even sabotage to compensate for perceived injustice. Likewise, tomato growers cheat to fight back against the industry - against what they conceive as submission, exploitation and fickleness. In the tomato chain, "co-operation is rejected, distrust widespread and apathy reigns" (Hood, 1998: 9). The *cuchufleta* maximizes short-run private benefits but sacrifices trust and loyalty. It thereby negates the possibility for concerted action to systematically improve the institutional conditions of tomato contracting. At the mercy of Tomatio, the tomato growers seem unable to think and act beyond the limits set by a culture with no room for local agency.

5.4. The vicious circle of distrust revisited

By now it has become crystal clear that Tomatio acts like a patriarchal hierarchist, and its chain partners like clientelistic fatalists. These institutional thought styles complete the vicious circle of distrust presented in chapter one (Figure 5.3). The vicious circle of distrust becomes a fully-fledged explanation for the reproduction of 'patron-client institutionality' in the tomato chain.

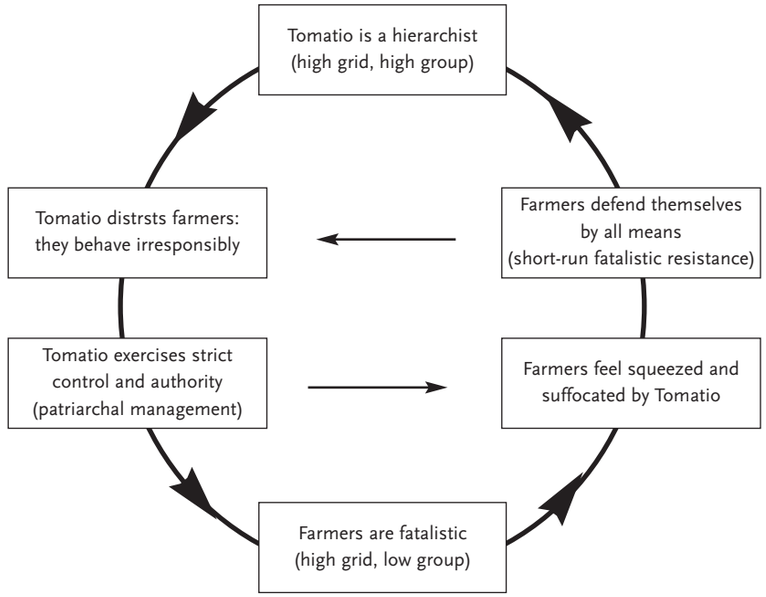


Figure 5.3: The vicious circle of distrust in the tomato chain

Organized as fatalists, the growers feel squeezed and suffocated by Tomatio. From the great variety of life's experiences, they selectively perceive and memorize those experiences confirming their fatalistic thought style. Feeling victims of exploitation and fickleness, the tomato growers find it reasonable to take justice into their own hands and defend themselves by cheating. From all possible actions that might be taken to improve their situation, they chose repeatedly and almost blindly for short-run individual resistance, in accord with a fatalistic thought style. Alternative responses, such as concerted action, are difficult to materialize anyway, because the social environment is one of distrust and opportunism.

Commanding a hierarchically organized contract scheme, Tomatio perceives that farmers disregard the rules that have been defined and agreed upon. From the great variety of farmers' behavior, the company selectively perceives and memorizes poor compliance, irresponsibility, incompetence, and cheating. Conceiving that farmers need to be straightened out, the company increases its managerial grip on the tomato chain so as to assure order and compliance. From all possible actions that might be taken to increase farmers' discipline, Tomatio chooses almost blindly for increased intervention, more expertise, tighter procedures, and stricter control. Alternative responses such as market-like mechanisms are difficult to materialize anyway, because the social reality is one of distrust and opportunism.

Tomatio's hierarchical bias and the growers' fatalist thought style thus amalgamate into the vicious circle of distrust - a perfectly streamlined, self-sustaining interaction between cognition, behavior and organization. Alternative patterns of social interaction are a priori excluded as both actors suffer from specific sensitivities, partial blindness, selective memories, and limited rationality. The 'juice issue' mentioned earlier helps to illustrate the problem. In response to farmers adding water to the gondolas, the company changed its delivery procedures. The technical manager explained to me:

> "This year, for the first time, we let the juice escape from the trucks before weighing them. The juice is equivalent to 1.6 percent of total weight. Analysis of the liquids showed consistencies of 3.5 to 4, which is normal, but often it was 1, which means that farmers are adding water. This is what we aim to combat."

Farmers were furious about this new sample of arbitrariness:

> "It's a policy of throwing all potatoes into a single bag. Punish the guy who adds water, let him suffer! But don't use it as an excuse to improve the profitability of your business."

> "It is a robbery. I have no influence on the amount of juice... Juice is part of the tomato. I sell tomatoes. I do not sell a dehydrated product."

Other farmers appeared resigned to the thought that fairness is not in this world:

> "Each year they invent something to extract some money from us. This year, they came up with the juice thing. Last year, they came up with the collecting agency [Agromás, which provides no room for renegotiation of debts]. The year before, the change from dollars into *pesos*."

> "The companies do whatever they want. For instance, this juice thing. "What are you doing, this is tomato", I told them. But the contract authorizes them to open the lock-gates. "Why?", I asked them. Because some farmers add water. "But why must I suffer when other civilians break the law?", I said. There is no solution. The contract transfers all risks to the farmer."

The technical manager agreed that the policy was entirely not fair, but hierarchies are masters of the art of deflecting blame:

> "It's not my idea either. It's the people from industrial production. Sometimes we have this type of conflict. For instance, when a bad truck arrives and they want to send it back. We [from agricultural production] always defend the farmer, we don't want him to run into debts with us, but they don't want their productivity to decrease, they want to maintain their standards."

Also the technicians found the new procedures unfair:

> "This new juice policy is exaggerated. The company should define a maximum percentage of liquids, and punish everything above that limit. But not like this. The amount of juice depends on the variety and the distance to the plant, not only on the farmer."

Yet when talking to farmers, the technicians would defend the company's perspective:

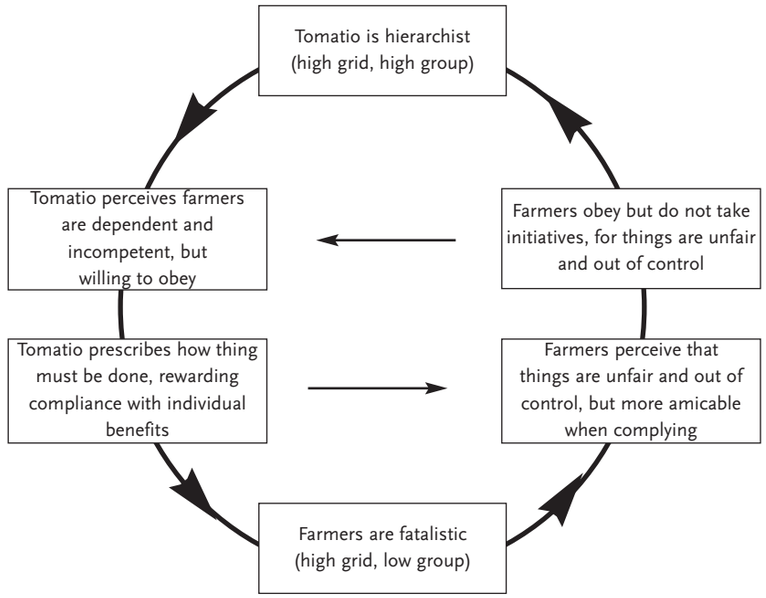
> "You guys do the *cuchufleta*. In tests, the °Brix of the juice was around one. Do you really think the company doesn't know how to defend itself?"

With a wonderful Freudian slip of the tongue - confusing °Brix with consistency - the technician subconsciously underlined the real issue at stake. Beneath the standards and

procedures in the tomato chain is not a set of consistent technical criteria, but rather a struggle over what is righteous in moral and monetary terms. Presented and imposed as a matter of course, standards and procedures are in fact moral norms, for they define winners and losers (Busch, 1995; Reardon et al., 1999). They result from a normative debate that underlies the business relation. "Each individual who enters a social relation is drawn at the same time into a debate about what the relation is and how it ought to be conducted" (Douglas, 1992: 133). In this normative debate, the growers adhere to a fatalist morality. Conceiving they are victims of exploitation and fickleness, the growers make justice in a fatalist way, indulging in fraud and swindling. The industry adheres to a hierarchist morality. Conceiving itself a victim of incompliance and disrespect, the industry makes justice in a hierarchist way, defining a new procedure that safeguards the interests of the hierarchy and eradicates the problem altogether. By making justice in a way that violates the sense of justice of the other, the chain partners sustain the vicious circle of distrust.

The tomato chain would quickly fall apart had there not been a counterpart to the vicious circle of distrust. As a counterbalance to distrust and opportunism, patron-client institutionality features the vicious circle of dependency (Figure 5.4.).

Figure 5.4: The vicious circle of dependency in the tomato chain



Forced into the fatalist corner by the company, farmers feel they have no influence upon the business context in which they are involved. Though trying to bend rules for personal advantage, they are resigned to the fact that pre-defined institutional norms and procedures are imposed upon them. Nonetheless, by showing loyalty and friendliness, they are rewarded with a good treatment and may expect to receive special privileges. At the same time, they try to get maximum support from the company, whose services are free of charge. Because things are beyond control and the future insecure, farmers refrain from specialization and long-term investments, unless the company offers an attractive package deal. Innovation is limited to isolated individual experiments as they have no organizational resources to back up systematic attempts to be pro-active. The most rational thing a tomato farmer can do, is to obey the company, refrain from grassroots initiatives, and hope for good treatment.

At the head of a hierarchically organized contract scheme, Tomatio perceives farmers as dependent and incompetent, and itself as indispensable for order and progress. It is no option to let things take their course - if Tomatio does not take responsibility, nothing is done. Most farmers are incapable of working independently - they simply await to be instructed. Good farmers are those who are willing to comply and invest, and who have shown loyalty throughout the years. The company rewards and stimulates such farmers with special treatments and preferential access to new technologies, so as to turn them into model farmers who serve as an example to the rest. Farmers' own ideas are discouraged, for the company does not want to create precedents - if you give them an inch, they will take a mile. Farmers' innovations are seen to hurt the company's interests - when successful, Tomatio's technical authority will be questioned, and when failing, the company's production targets are jeopardized. Collective initiatives are even more dangerous. They must be avoided at all costs, for when farmers gather, only bad things can result - collectivity runs counter to the wider sense of 'Chilean institutionality.'

The life worlds of both chain partners thus amalgamate into the vicious circle of dependency. Once this dependency is locked in place, it seems the most rational thing for farmers to obey and seek maximum support from the company. For Tomatio, the most rational thing is assume centralized command and create a group of privileged farmers who will defend the interests of the company *vis-à-vis* other farmers. Alternatives to this model of centralized initiative - such as free-market structures or chain partnerships - are difficult to materialize for they pre-suppose farmers to be competent, pro-active, and organized. In an interview, an ex-employee hit the nail on the head:

> "The tomato industry has always been paternalistic, ever since *Malloa* [the first tomato industry in Chile], because it works with growers who have no capital resources. This [financial] dependency transformed into a mode of control. Nobody ever questioned this way of working because it is most natural. It is a vicious circle. The industry thinks: "If we don't do it, the farmer won't comply." The problem is not the people - they are good persons. But it grew like this, a sort of culture, and now it seems there is no other way."

The two vicious circles together sustain a streamlined interaction between patriarchal hierarchism and clientelistic fatalism. Patron-client organization is a viable and durable form of organization in the tomato chain because it entails mutually supportive relations between the 'structure' and 'attitude' of both sets of actors. Dependency and swindling by fragmented farmers go hand-in-hand with strong command and centralized initiative by a hierarchical industry. The institutional thought styles of both actors thus support a chain model featuring centralized decision-making, personalized incentives, blurred task divisions, and institutional distrust. This chain model inhibits the search for alternative patterns of social interaction. For organizational change requires the chain partners to critically examine their blind spots, and to build up a different set of attitudes and competences. The current chain climate - one of distrust, short-term opportunism and failing institutions - is far from stimulating such a demanding endeavor. For both actors, it is far easier to let things be as they are. Whereas the industry governs through a policy of divide and rule, the farmers find their own personal way to defend their interests. Patron-client institutionality has grown as the most natural way to get things done in the tomato chain. "This is the nub of the argument: institutions stand on different forking paths of decision trees. Once embarked on one path, it is difficult to get back to the choice that would have led another way" (Douglas, 1992: 136).

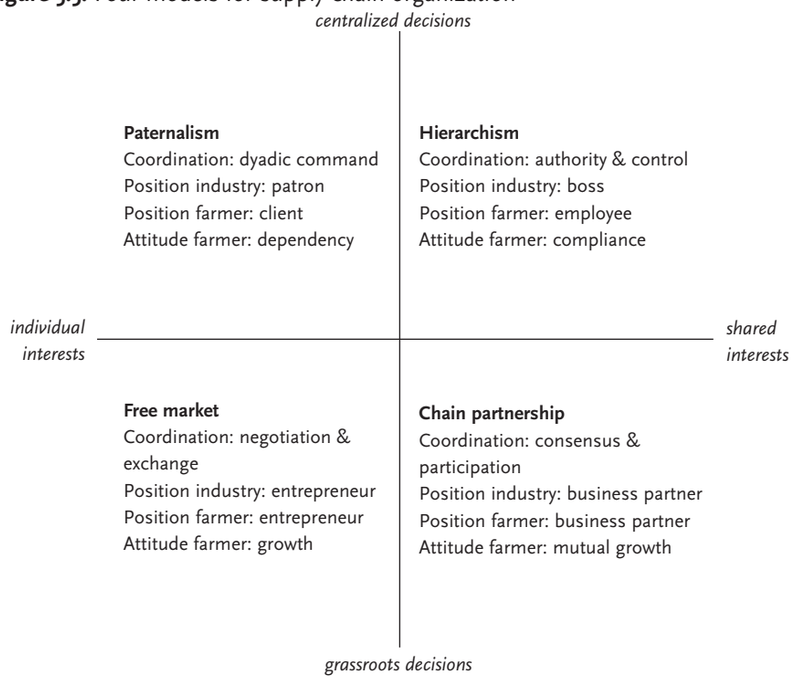
5.5. Changing the institutionality of the tomato chain

An institution starts being questioned when its inherent weaknesses are experienced as problems by the members of the institution. When I started my field research in January 1999, the tomato chain was in such a situation. The decreasing profitability of the crop, the failure to produce quality, and the disappearance of traditional markets prompted Tomatio to develop an ambitious plan for agricultural innovation, including integrated pest management and 'full mechanization.' As Chapter One demonstrated, these new technologies require farmers and industry to develop new skills, attitudes and working relations. In other words, the existing chain model was no longer adequate as an organizational framework for the crop system envisaged by Tomatio. The desired path of technological innovation required concomitant organizational innovation. Tomatio's need for external expertise to help direct this process was for me a golden opportunity to seek a working relation with the company and thus conduct field research that would go far beyond mere interviews (see Appendices). The result was a collaboration during three consecutive seasons, from September 1999 to May 2002, in which we made a chain diagnosis and created a chain platform for dialogue. The aim of this dialogue was to generate shared visions on the future of tomato growing, and elaborate a joint action plan to improve the organization of the chain. The methodology, experiences and results of this venture are analyzed below.

5.5.1. Strategy and methodology of the chain platform

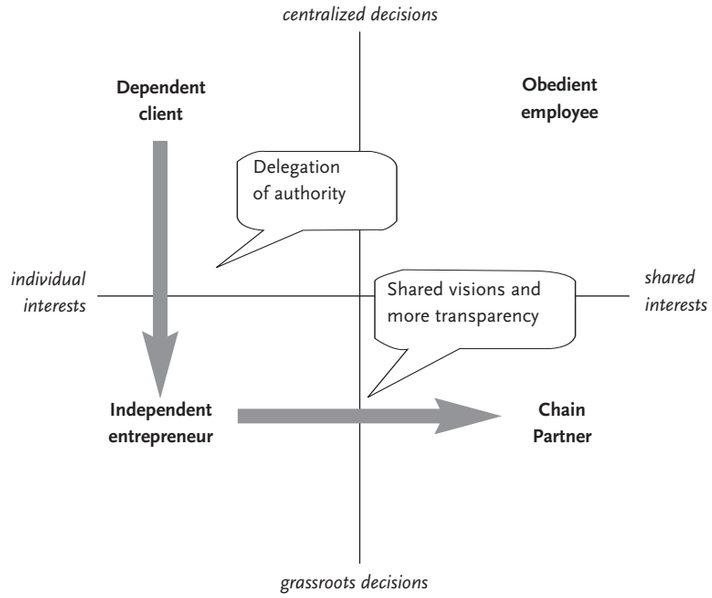
Our collaboration started by diagnosing the chain relations. While confirming Tomatio's complaint that most farmers are passive and dependent, the diagnosis emphasized that such behavior was not an inherent rural idiosyncrasy but rather related to the patriarchal way in which the chain is steered and regulated (see Chapter One). To illustrate this point, the diagnosis distinguished between four chain models, each of which accommodates a distinct mode of regulation with concomitant social relations and attitudes (Figure 5.5).

Figure 5.5: Four models for supply chain organization



The diagnosis convinced Tomatio that farmers would be reluctant to specialize unless they had more entrepreneurial freedom. It made the company realize that organizational change was vital to the implementation of its futuristic plans. As Tomatio wanted growers to convert from dependent clients into full chain partners, the company had to trigger two organizational changes (Figure 5.6). First, decision-making power had to be transferred to farmers in order to lower their grid experience, and stimulate their sense of entrepreneurship. Second, the chain had to develop shared visions and more transparency - particularly regarding downstream segments - in order to increase the group experience by farmers. Shared visions and open communication would help to improve farmers' commitment to tomato growing.

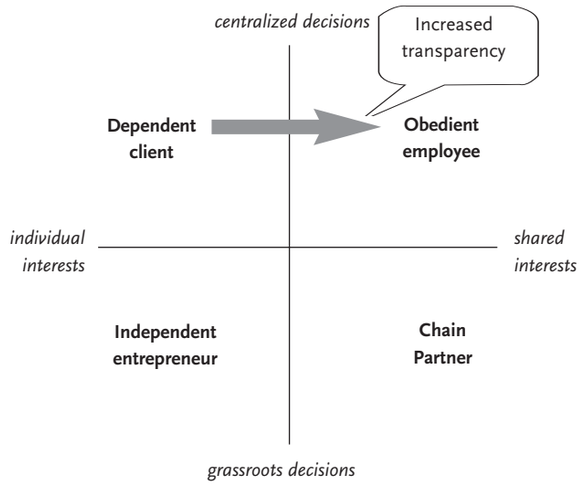
Figure 5.6: Two organizational changes to turn growers into chain partners



Tomatio's original plans, developed before the diagnosis, contemplated only one change, namely, increased chain transparency. In order to generate trust and commitment in the chain, the company had thought of several activities, such as a tour inside the plant, and a workshop by the marketing department. But the plan omitted any activity geared at lowering the grid experience of the growers. This one-dimensional strategy would have had fatal unintended consequences, since it would convert the growers into employees rather than business partners, thereby preserving the need for centralized chain command and initiative (Figure 5.7). Without a real transfer of decision-making power, Tomatio would still need to be involved in everything, while farmers would still feel undervalued as knowledgeable entrepreneurs.

Endorsing the need for two-dimensional change, Tomatio was willing to adapt its plans, and commissioned me to develop a methodology to trigger a gradual transition from patriarchal chain management towards chain partnership. Thus the tomato chain platform was born. The tomato chain platform assembles the chain participants in a carefully mediated dialogue on the question of how to improve the performance of the chain. The aim of the dialogue was to achieve a rapprochement of chain partners, to generate shared visions on the future of tomato growing, and to draw up a joint action plan with concrete proposals for improvement of the supply chain. The challenge was to overlook conflicting interests, prejudices and traumas from the past, and to focus instead on shared interests, positive aspects, and future opportunities. The platform participants were thirty-five growers, eight machinery contractors, twelve technicians, three zonal managers, the head of R&D, and the technical manager.

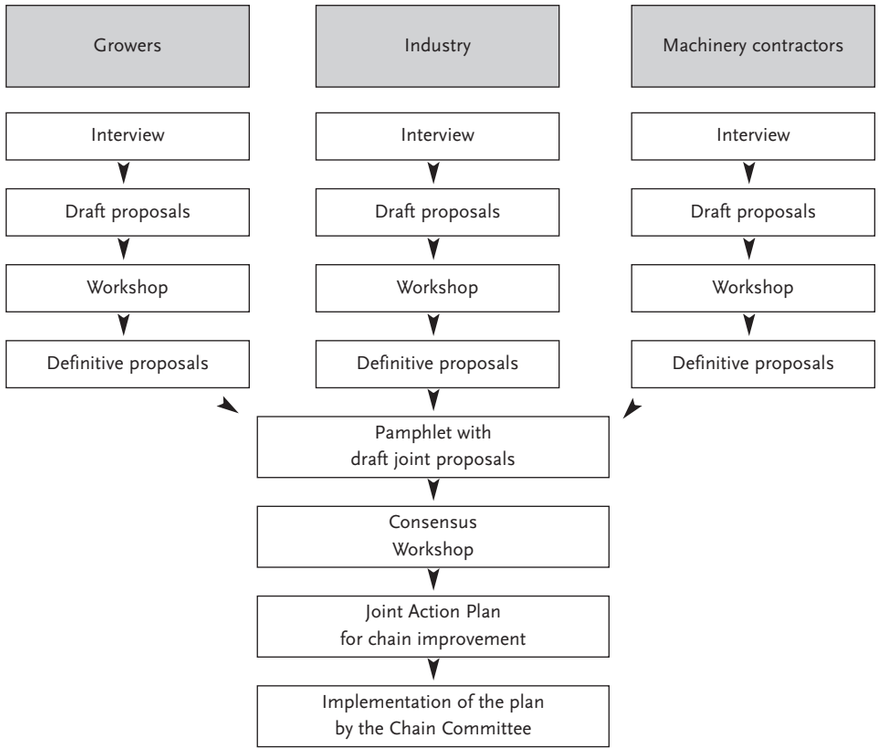
Figure 5.7: The pitfall of Tomatio's original plans



To have an open and constructive dialogue, we designed an elaborate methodology (Figure 5.8). The first step was a personal interview with each set of participants, which served to involve them in the process, create trust and commitment, and abstract their personal vision and ideas. This output was systematized by the consultant into draft proposals on seven themes - task division, innovation, profitability, seedlings, harvesting, quality control, and communication. The draft proposals were brought up for discussion in three separate workshops - one with the industry, one with growers, and one with machinery contractors - so as to convert them into a definite set of proposals brought into the chain platform by each set of actors. Yet before bringing all parties together for discussion and negotiation, the consultant compared the unilateral proposals of each party so as to identify consensual draft proposals. All proposals, both unilateral and consensual, were distributed among the participants, together with an invitation to the Consensus Workshop. This final activity assembled the participants in the drawing-room where the Independence of the Republic of Chile was signed two centuries earlier. In this mystical setting, the participants discussed and prioritized the consensual draft proposals, and converted them into a Joint Action Plan for chain improvement.

The action plan thus developed contained a shared vision on the future of the tomato chain, and fifteen concrete proposals to turn that future into reality. A Chain Committee responsible for implementing the action plan was created by electing three members on behalf of the growers, one in the name of the machinery contractors, and three members representing Tomatio. From the next season on, the Chain Committee would gather monthly, under facilitation of the consultant, to implement the Joint Action Plan step by step.

Figure 5.8: Methodology for the chain platform



5.5.2. Experiences and results of the chain platform

As expected, the 'structure' of the chain platform initially did not fit with the 'attitude' of the chain participants. The growers and machinery contractors met the chain platform with great skepticism and distrust. Farmers expected the dialogue to end in nothing:

> "Is the company really going to listen to us? We have already had so many conversations, and we farmers always end up as losers."

Neither was the company convinced of the benefits of chain dialogue. It expected no constructive proposals from the growers. One technician commented:

> "The growers have no interest in improving the crop. They are not committed. When the results are positive, they throw out their chest. When the results are negative, they blame the company. They don't look beyond immediate results."

The management felt uncomfortable loosening the reins. The technical manager, afraid of losing control over the growers, repeatedly tried to intervene in the process:

"He is a dangerous type. I don't think it is convenient to invite him [to the consensus workshop]."

"It is difficult for us to open ourselves. It has to be slow. Remember that."

"The objectives of the [farmers'] workshop are good and it would be counterproductive if the company were present. But we don't know what happens when the farmers meet each other. Never before did they have the opportunity to gather without the company being present. They might organize themselves, imagine, 1,000 ha, our best farmers."

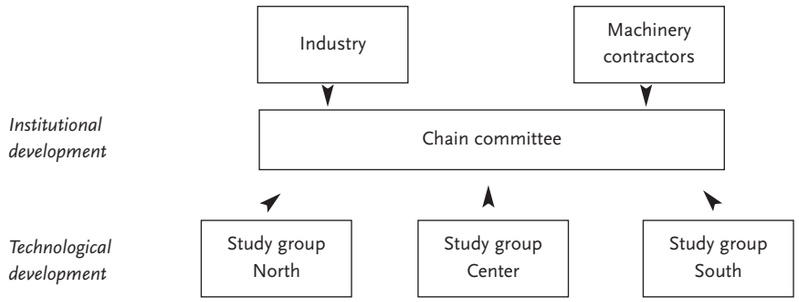
Personal trust and solid methodology helped surmount this resistance. The managers and technicians already knew me for a year and trusted me - besides working together, I had played soccer and gone drinking with them on several occasions. Farmers in the immediate surroundings also trusted me as I had been involved in training and advising a local group of tomato growers. Other farmers were delighted that a *gringo* took the trouble to visit them in their houses and spend an hour or two in personal interview. My close friendship with Don Nano - Tomatio's largest grower and a respected leader (see Chapter Seven) - must have cleared away much distrust as well. For both parties, my foreign background and institutional independence helped to underscore my neutrality and discretion, while my command of Chilean slang made them accept me as one of theirs. On the other hand, the methodology used in the interviews and workshops struck a good balance between participation and control. The participants were free to express their opinions and emotions but at the same time were strongly guided so that the discussion would remain focused and constructive. It was particularly necessary continuously to return to the focus on concrete organizational issues and shared interests. Stubborn prejudices, abstract generalizations and unilateral complaints were thus transformed into a rich collection of concrete, realistic and representative win-win proposals.

The chain platform thus evolved as a successful and exciting experience. The level of assistance in the workshops was high - ranging from 80 to 100 percent - the process eye-opening for everybody involved, and the end result beyond anybody's expectations. The Joint Action Plan contained the following shared vision:

"In order to safeguard the future of the crop, the chain relations need to change. The industry will open up spaces of participation so that farmers and machinery contractors will take responsibility and initiative."

The shared vision was translated into a new chain model (Figure 5.9). Two new chain institutions were created to improve the management of the chain, and to sustain and deepen the new partnership. On the one hand, the Chain Committee, representing all parties, was charged with institutional dialogue in, and organizational development of, the chain. On the other hand, three local Study Groups were created to underpin the representation of farmers in the chain committee, and foster technological innovation at field level.

Figure 5.9: The new partnership model for the tomato chain



To put the new chain model into practice, the Joint Action Plan provided an agenda with fifteen proposals for chain improvement. All proposals were collectively agreed upon, prioritized, and concretized in terms and responsibilities. Featuring five proposals for improving seedling procedures, the list clearly reflected the trauma of massive infection earlier that season. On the other hand, the agenda also contained a series of genuine changes in task divisions, contract conditions, and quality control. Box 5.1 presents all proposals in prioritized order.

Box 5.1: The agenda with joint proposals for chain improvement

1. To enhance farmers' control over the purchase of seedlings
2. To give farmers full control over the purchase of machine harvesting services
3. To introduce seedling quality standards into the contract and authorization for farmers to reject them
4. To convert the price in US dollars
5. To increase the number of nurseries and of 'speedling' seedlings
6. To provide bulletins with technical information
7. To certificate or externalize quality control (through an external agency financed by both parties)
8. To introduce a quality management system in seedling production
9. To enhance farmers' control over nutrition and pest management
10. To improve the planning of seedling production and transplanting
11. To train the staff working at quality control
12. To make an annual inventory of problems and ideas amongst growers
13. To increase group activities (excursions, workshops, field days, etc.)
14. To organize local study groups of farmers
15. To provide an annual bulletin with commercial information

The Chain Committee, charged with implementing these proposals, would operate for at least another season, on basis of the resources from the PDP project. One of its tasks was to find financial means for subsequent seasons. CORFO was likely to continue its financial commitment, and growers had also shown willingness to co-finance some sort of chain activity. In short, all elements needed for a transition toward chain partnership

were there - a shared vision, a new chain model, a set of concrete proposals, defined terms and responsibilities, and financial means. Everybody seemed satisfied with the experience of open communication, and positively surprised with the results from it. A definite step towards a new chain model seemed taken, when the technical manager concluded the Consensus Workshop saying:

> "Supported by an excellent consultant, our company has encountered the appropriate methodology to interrelate with our suppliers in a new way responding to the demands of a new age with new challenges and new technologies."

However, the next season, when the action plan was to be put into practice, the dream of durable change proved an illusion. Some proposals were unilaterally implemented by the industry, but the chain committee never functioned well. The truth is that the chain participants never came close to genuine partnership. Shortly after the consensus workshop, the spirit of change was effectively killed by the 'phantom of the future' that Tomatio was disseminating in its public communications. The season had been so disastrous in terms of quality and prices that the technical manager claimed he did not even know "whether the company would continue to exist next year." Surely there were problems. An oversupplied world market prompted the management in Santiago to reduce Tomatio's crop from 4,000 to 1,500 ha and its agricultural staff from 17 to 8 persons. However, such fluctuations are far from uncommon in the tomato industry, a bulk commodity business susceptible to extreme variations in price and traded volumes. Furthermore, Tomatio had already been put up for sale - hence in trouble - for more than three years. Why did the company so eagerly grasp this opportunity to extend a cry of disaster and destroy the spirit of the chain platform? My guess is that Tomatio wanted to regain control by hiding itself behind Santiago's authority. Tomatio could keep both its image of openness and its negotiating power by extending the message: "The joint action plan is perfectly nice and we would love to see it implemented, but alas, in the end, Santiago is deciding."

While Tomatio was creating phantoms, I spent five months in the Netherlands. Upon returning, for a wonder Tomatio still existed, as well as its PDP, and we re-took the initiative. The local Study Groups were installed, and farmers' representatives formally elected. The Chain Committee gathered three times for lively discussions about quality control, R&D, and other elements of the Joint Action Plan. But the members of the committee never fulfilled the tasks to which they committed themselves during the meetings. The farmers on the committee failed to perform as true representatives of a branch, and rather acted on their own behalf. For example, one large-scale farmer blocked the initiative to put quality control under external certification, reckoning he is better off with flexible procedures. The managers, in turn, provided beautiful discourses but in the end there was always something more urgent impeding them in fulfilling their promises. Their work pressure did not allow them to take up 'additional' tasks. Then one day, the industry made everybody come and wait for one hour, just to be told that the management was unable to assist the meeting because it was busy attending superiors from Santiago. The next meeting, the industry showed up but the farmers defaulted. By then, the spirit of change was gone. The industry could rightfully claim that farmers were not interested in dialogue, and vice versa. No more meetings were organized, and the joint action plan was no more than a useless piece of paper. The chain partnership had failed. Everybody went back to business as usual - individual short-term bargaining.

Explanations for this failure are manifold. Methodologically, the process beyond the Consensus Workshop was deficient. The five months pause was too long - one must strike the iron while it is hot. Furthermore, as consultant, I criticize myself for failing to show the same dedication as during the first two seasons. Nevertheless, the single most important factor accounting for the failure of the tomato chain platform is the amazingly durability of 'patron-client institutionality.' The Chain Platform was a dazzling experience but artificial and superimposed. The vital element which initially made it work was my personal dedication. Without my direction and support, nobody adhered to the win-win logic of chain partnership. The growers, though assisting in the dialogue, remained clientelistic fatalists, acting as isolated individuals and thinking in the short run. They never had the intellectual and organizational competence to be regarded as genuine chain partners. The industry, in turn, seemed interested in conducting an experiment and exploring a new path by which it might transfer tasks, hence reduce transaction costs. But in the end, the company was never seriously considering the possibility of sharing power and control in the supply chain.

Perhaps we could have attained some minor organizational changes, but a genuine breakdown of the patriarchal model was never in sight. The scope for potential change was limited to my presence as a broker between both parties. My interference helped, for instance, to improve communication practices in the tomato chain. But the fundamental properties of the patron-client model were never challenged, as my *personal* interference became absorbed into a *personalized* chain model. My presence enabled the chain participants to communicate in different ways, but Tomatio remained the big leader and provider, and the growers a clientele of isolated individualists. In spite of its flaws, patron-client organization remains the most viable institutionality for the tomato chain. This is because it exists in harmony with the 'ways of life' of Tomatio and its chain partners - which, in turn, partake of the wider Chilean institutional culture of deference and *noblesse oblige*.

Chapter 6 Paternalism in rural organization

6.1. Introduction

This chapter will argue that the Chilean peasant movement is a key institutional arrangement for continued patron-client organization on the countryside. Founded upon outside support rather than as a grassroots initiative, the Chilean peasant movement is *grosso modo* a top-down created web of patronage linking nearly 100,000 rural families to state support and protection. This top-down origin is woven into the design of the organizations themselves. Patronage relations prevail internally between leaders, professionals and members, as well as externally between the state, political parties, consultants, other patrons, and peasants. In five years of professional experience, I never had the pleasure to encounter a genuine grassroots peasant organization founded by members themselves in an attempt to solve a perceived common problem.

This proposition is in itself not new. There is general consensus that the Chilean peasant movement has always been highly dependent upon external support by the state, Church, and political parties (e.g. Gómez, 2002; Barría et al., 1991; Silva, 1988; CEPAL, 1985). Financial and managerial dependency is, in fact, considered the painful reality of most peasant organizations on the continent:

> "Latin America is full of examples of unsustainable 'bubbles' created by the political will of a government, foreign donor or an NGO. These 'bubbles' grow and glow while the artificial environment in which they live endures, but burst as soon as the political winds change and the flow of subsidies dries out" (Berdegué, 2001: 101).

Yet few seem to grasp the full implications of the argument. Despite wide agreement that patromonial dependency does not lead to durably successful organizations, 'patron-client institutionality' continues to be promoted even today. Artificial 'bubbles,' indebtedness, excessive dependency, and partisan interests - many of the mistakes made in the 1970s - continue to be committed in present-day peasant organizations. Even though policymakers, peasant leaders and farmers are aware of these problems their combined problem-solving capacity is low, as they either focus on derived problems, isolate them, or solve them with pipeline solutions. It appears they are system-locked.

Therefore I find it useful to point out that patronage is not just one of the problems of Chilean peasant organization but rather the historical template underlying these problems. The flaws of peasant organization in Chile derive from applying the patron-client model within the context of peasant unions and cooperatives. 'Patron-client institutionality' seems, to a certain degree, unsuitable for systems of concerted competition, as illustrated by the tomato chain (also a system for concerted

competition). If true, this would point to the need for a fundamental institutional redesign of Chilean rural organizations. The "most insoluble conflict is between institutions based on incompatible principles... Only changing institutions can help" (Douglas, 1986: 125-6). Hence, for Chilean peasant organizations to become durably successful they need a redesign of the *principles* of organization. Rather than solving isolated problems farmer groups need to change their grid-group location in order to arrive at new, viable forms of organization.

For such a superhuman thing to happen, full awareness of the current institutionality is a prerequisite. Therefore this chapter first analyzes the resilience of clientelism in the Chilean peasant movement, and then explores problems of peasant organization in contemporary Chile. Finally, it explores viable, new forms of peasant organization.

6.2. The resilience of clientelism in Chilean peasant organizations

The Chilean peasant movement is divided into two types of organization - on the one hand, unions geared towards political representation, and on the other cooperatives aiming to do business. My prime interest lies with the business organizations. Nevertheless, I start with a brief analysis of the unions.

As shown in Chapter Three, peasant unionization in Chile was initially promoted by Jesuits, Communists and urban unions, but did not flourish, since landlords held hegemonic sway over the countryside and its population. The landlords were able to maintain this oppressive situation until 1964, when Frei's progressive coalition of urban interests gained political power, and started to promote massive peasant unionization. In six years time, rural union membership grew from 1,800 to 140,293 farmers, two-thirds of them linked to Frei's party, the Christian-Democrats. Under Allende's administration, the peasant unions rose to an historical peak. In two years time, peasant union membership doubled to 283,617 members, with 61 percent linked to the parties allying in *Unidad Popular*. Under military dictatorship, the peasant movement, more affected than any other sector of civil society, was nearly extinguished. Formal membership dropped to 15 percent of the 1973 level, but *de facto* the figure might be 5 percent (Silva, 1988). The peasant unions had been a mere extension of the parties ruling the country in the late sixties and early seventies. Therefore they rapidly disintegrated under dictatorship, along with the paternalistic state and political parties.

Yet the core structure of the rural unions survived the dictatorship, thanks to their holy mission of restoring democracy, their integration into clandestine networks of resistance, and significant financial support from international solidarity (Kievid, 1993; Silva, 1988). What a disappointment it was for them when democracy's return brought only respect but no particular encouragement from the new authorities. The rural unions had perceived the military dictatorship as "a parenthesis that interrupted a process that surely would continue once the military would abandon power" (Gómez, 2002: 8; my

translation). However after Chile's bitter experiences, it was unthinkable that the state would once again support agrarian reform and massive peasant unionization, policies which had helped create a chaos that nobody wished to live again. The rural unions feel into deep crisis, due to being rooted in a now impossible political constellation, and their historical dependence upon financial support from the state. Formal membership declined from 46,466 in 1990 to 36,079 in 2000 (Gómez, 2002), but these figures are a mere formality. My own experiences indicate that unions tend to multiply their membership figures by factor of two (Peppelenbos, 1995). More alarming is the lack of fresh blood in the unions. Both members and leadership are pretty much from the same generation that participated in the mass mobilizations of the sixties and seventies. Though skillfully adapting to today's initiatives farmer leaders have their minds in the past - in that 'decade of dignity and justice' (Box 6.1).

Box 6.1: The resilience of peasant leaders

In May 2001 I accompanied a delegation of farmer cooperatives on a visit to the Minister of Agriculture. The delegation was headed by a peasant leader from MUCECH, the national umbrella organization of peasant unions. The aim of the visit was to present a business plan for the creation of a national business platform for peasant cooperatives. Upon saluting us, the Minister shook the hands of the peasant leader, smiled and said:

"Hola, Don Omar, ¡qué gusto! ¿Con qué sombrero anda hoy día?"

("Hello, Don Omar, what a pleasure! What hat are you wearing today?")

The Minister joked about Don Omar's chameleon-like leadership. For decades Don Omar has managed to maintain his leadership position in every new organization that emerges as a critical response to the failure of earlier initiatives headed by him as well. Everybody appreciated the joke, but the smiles quickly disappeared when Don Omar opened the meeting with a five-minute lecture in political history instead of an executive introduction to the point of a business plan.

Created and sponsored by the state, MUCECH is the national platform through which the unions meet with authorities to discuss governmental policies on small-scale agriculture. But effective lobby is hampered by their fragmentation into eight national confederations, each of which is linked to a political party, or a specific target group (e.g. indigenes, women). Partisan interests shape the agenda and leadership of the rural unions, thereby impeding sector-wide collaboration around a shared mission - viz. political defense of the interests of small farmers and rural workers (Peppelenbos, 1995). At local and regional level, the unions have a severe lack of active members, competent leaders and financial resources - membership fees are almost absent. Hence they are practically inoperative. The great majority of the local unions are so-called *sindicatos independientes*. These 'syndicates for the self-employed' serve no real purpose as the self-employed have no employer to negotiate with - the core task of unions. Other types of unions have minimum negotiation capacity, for labor legislation has been practically unchanged since 1981, when the military government issued its repressive Labor Plan

(Gómez, 2002). The bitter irony is that compared to their situation today, the unions were in a better shape when repressed by the military dictatorship. Then they had a mission and abundant resources. In democratic Chile, the rural unions are rusted remains of the past, desperately looking for the external support they once enjoyed and still feel entitled to as 'compensation for past injustices.' Their nostalgia for the past and neglect of internal potencies keeps them fully stagnated.

Whereas the rural unions suffer from institutional standstill, the peasant cooperatives suffer from institutional resilience. What follows is a comparative analysis of peasant business organization before 1973, under military rule, and after 1990. It will show how the same problems and mistakes are repeated time and again.

The development of Chilean peasant cooperatives is part of the wider development of cooperativism in Chile. The first cooperative type of organizations emerged in Chile at the beginnings of the 20th century. They were mutual insurance companies oriented towards necessities such as health care, education, housing, consumption, and social security. Under Arturo Alessandri - the populist 1924 president - the cooperative model was recognized in law, and actively promoted by the Ministry of Development. Several cooperatives were created - especially in housing, consumption and agriculture - but "the results were not as expected, because there was no financial policy enabling the cooperatives to acquire assets for their development" (Barría et al., 1991: 470; my translation). When the state agency CORFO was created in 1939, the cooperative movement had a renewed impulse. CORFO created many cooperative companies as part of its industrialization program - especially in electricity, dairy products, and wines. The period 1952-1963 is considered the golden decade of the cooperative movement - the number of cooperatives quadrupled, membership tripled, and in 1963 the cooperative movement came to represent almost one-fifth of the employed population (CEPAL, 1985). But in agriculture, the cooperatives developed less well. Explanations put forward at that time were - besides a lack of financial resources - the "low cultural level and analphabetism amongst the peasantry" and "the idiosyncrasy of the rural population, whose individualism and distrust hamper cooperative work" (Barría et al., 1991: 472; my translation).

Under Frei and Allende, the state had an even greater interest in promoting cooperatives. Cooperatives were considered a vehicle for social change and incorporation of the poor. The cooperative movement fully expanded into the countryside, promoted by the state as a new community structure replacing the expropriated *haciendas*. At the same time, the state created a vast infrastructure of processing plants, cold-storage depots, and input-providing companies - as part of its export-promotion policies. Many of these new companies were organized as cooperatives. All in all, the number of cooperatives almost doubled in only six years time, catered for by an vast public infrastructure providing loans, technical assistance, training, and marketing support (CEPAL, 1985).

The military government initially maintained state support for the cooperatives, but in

1976 that policy changed a hundred-and-eighty degrees. While imposing a neo-liberal market reform, the government withdrew its financial support for the cooperatives, and amended the law to make cooperatives function like limited liability companies. Most cooperatives failed to survive in this new policy context. In 1984, 65 percent of all cooperatives had disappeared, and the membership base had shrunk to one-fifth of the 1970 level (CEPAL, 1985). The surviving cooperatives were mostly in a deplorable state - especially the agricultural cooperatives. It was only in wines, liquor (pisco), and dairy that the rural cooperatives maintained significant market shares (respectively 10%, 77%, and 21% in 1988; Barría et al., 1991).

What made the difference between winners and losers? The cooperatives that survive today as fully-fledged market parties are among the earliest cooperatives formed in Chile - i.e. before the state started to patronize the cooperative movement (CEPAL, 1985). They emerged as a mix of bottom-up and top-down initiatives - on the one hand responding to government incentives, on the other hand based on local leadership. They have a strict non-political business orientation and tight organizational procedures. Their development is planned in relation to their own capacities rather than the availability of government loans (Barría et al., 1991). Their leadership is strong, and participation by members is limited. "Rather than participation, there is trust in the persons steering the company. The leaders have been in charge of management for years, and are fully legitimized by the base" (Barría et al., 1991: 536; my translation).

These features are shared by the five most successful rural cooperatives in Chile - i.e. *COLUN* in dairy products, *Control* and *Capel* in pisco, *Los Robles* and *Cauquenes* in wines. Chile's largest cooperative, COLUN was founded in 1949. Most of its members are smallholder family farmers, yet the cooperative is steered by a limited group of large-scale producers. In 1988, sixty percent of the members possessed 7 percent of the shares, while three percent of the members owned 42 percent of the shares. The large-scale members also dominate the cooperative's board of directors. The then manager had led the cooperative for more than twenty-two years. He was one of the founding fathers of the cooperative, and right-hand man of the previous manager. During forty years of existence the cooperative has had only six presidents, and most directors function for more than fifteen years (Barría et al., 1991).

Most of the cooperatives that collapsed were founded in the 1960s and were overly dependent upon state support. Their development was artificially magnified as a result of indiscriminate stimuli provided by the state. When forced to operate in a competitive market and revert to private financing they were in a state of excessive indebtedness. Furthermore they lacked the expertise, commitment, and trust required to survive in difficult times:

> "Members find it difficult to identify themselves with their cooperative. This is related to the foreign origin of the cooperative model, its complexities, and the national idiosyncrasy. In many cooperatives, members refuse to invest own resources - often not even cooperative profits - in the development of their company. They tend to employ subsidies from the state or external agencies only. This lack of motivation derives

from a lack of control over the cooperative's management and board of directors" (Barría et al., 1991: 534-5; my translation).

In most cases, the members never felt the cooperative to be theirs. Rather than conceiving their cooperative a means to solve shared problems, farmers joined cooperatives to obtain short-term benefits. The problem was, in short, a lack of ownership. "The criteria with which the cooperatives were created derived from political objectives (...) rather than from the aim of promoting economically successful companies" (Barría et al., 1991: 540; my translation).

After Chile's return to democracy in 1990, the government considered peasant business organization vital in its rural development policies. Smallholder agriculture is nowadays a sector of 278,000 household enterprises producing forty percent of the country's annual crops and possessing thirty percent of its cattle, vineyards, and fruit orchards (Mesa para el Desarrollo de la Agricultura Familiar Campesina, 2002). Most of the sector is characterized by poverty and stagnation, and only a fraction displays growth and accumulation. The impoverished part is made up of smallholder farmers involved in domestic agriculture producing 'traditional' commodities for local spot markets - e.g. wheat, potatoes, rice and dry beans. The dynamic part comprised smallholder farmers involved in export agriculture - i.e. mainly contract production of 'non-traditional' high-value crops for agribusiness, like processed tomatoes, seeds, fruits, and vegetables. This dichotomy reflects the 'two faces' of modern Chilean agriculture - the 1990s were a golden decade for export agriculture, but brought involution to domestic sectors (Kay, 2002; Gómez and Echenique, 1988). Between 1987 and 1996, agricultural exports tripled in value, and diversified from fresh fruits and forestry products into wines, seeds, and a wide range of processed products. But in the same period the area dedicated to traditional crops shrunk by one-third, and real prices for traditional crops dropped on average forty percent (wheat fell by 37%, potatoes 43%, maize 28%, dry beans 48%, and sugarbeet 36%; Berdegué, 2001).

The policy conclusion was obvious - in order to promote socio-economic development in the countryside, smallholder farmers had to become increasingly involved in export agriculture. Smallholder agriculture had to 'reconvert' from traditional commodities into high-value crops, and from farming into upstream positions in the food chain (Ortega, 1994). For this to happen the state designed two basic strategies. One was the promotion of contract farming schemes as dynamic partnerships between small farmers and private export agribusiness firms. The other was the promotion of cooperative businesses among small farmers. "It was clear that the small farmer on his own would be unable to enter into dynamic markets - he had to do it in association with others" (Comisión de Agricultura, Silvicultura y Desarrollo Rural, 2002: 11; my translation). INDAP was charged with this job, for which it disposed of 160 million dollars a year - i.e. nearly two-thirds of the total budget of the Ministry of Agriculture (Berdegué, 2001). Under thirty different instruments, INDAP extended financial, technical, and managerial

support to local groups of farmers to develop joint business firms. In order to prevent any connotation of past excesses, these firms were named 'associative peasant firms' (*Empresas Asociativas Campesinas;* EACs hereafter). In neo-liberal Chile there seems to be no place for cooperatives, only for limited liability companies.

The incentives did their job. "Several hundred EACs were formed in Chile with the stimulus of the new policies" (Berdegué, 2001: 20). In 1998 there were approximately 778 EACs in Chile with a total membership of 58.000 farmers - nearly one-fifth of all peasants - and gross annual sales of hundred million dollars (ibid.). The strong correlation between the creation of these organizations and the incentives provided by the government is illustrated by the age of EACs. Berdegué's analysis of 424 EACs indicates that seventy-two percent of them had been founded between 1995 and 1998, twenty-two percent between 1990 and 1994, and six percent before 1990. A significant detail in Berdegué's study is that most EACs are involved in livestock products. "Livestock production (milk and meat) is more important than crop production. This undoubtedly reflects the influence of the milk collection centers that were widely promoted in the early 1990s" (Berdegué, 2001: 71). Hence, both the age and the composition of the associative peasant firms reflect a clear dependency upon government incentives.

By year 2002 the EAC model was in deep crisis. Evaluation showed that compared to the resources spent results have been very meager (Gómez, 2002). "A large part of the EACs formed in the past five to ten years are failing and falling apart" (Berdegué, 2001: 21). From an economic financial point of view only fifteen percent of the cooperative peasant businesses are in a "reasonable shape," while at least sixty-five percent are in a "bad to critical condition" (Berdegué, 2001: 106). Almost half of EACs have higher expenses than revenues, one-fourth is technically bankrupt, and one-third is overly dependent upon incomes from government programs (ibid., 2001). Yet the crisis is not just one of bad economic performance - it is also a crisis of political legitimacy.

March 6th, 2002, the Chilean Parliament assembled to discuss the results of an inquiry into the forty-four million dollars debt that peasant organizations were holding at INDAP. The parliamentary session evolved in a hot atmosphere. During the past two years, INDAP had been under severe attack by a national press that printed juicy stories on "the major loss of public resources for decades," "fraud on the state," "illegal enrichment by public servants," "political favoritism," and INDAP as the "Troyan horse of Christian-Democrats" (La Segunda, La Tercera, 2001-2002). These dressed up stories were inspired by a series of undeniable facts. INDAP was accused by the National Comptroller of fraudulent extension of 2.5 million dollars as credit to two peasant organizations, both of which were Christian-Democratic in orientation. One was founded by former directors of the institute. On top of that, INDAP's records indicated the rate of repayment had dropped from 92 to 26 percent in the case of short-term credits, and from 65 to 28 percent in the case of long-term loans (Comisión de Agricultura, Silvicultura y Desarrollo Rural, 2002). An external evaluation of 156 EACs concluded that book-keeping was incomplete and unreliable in 50 percent of all cases, and completely absent in 16

percent of all cases. One-fifth of the loans analyzed was used for goals other than those approved of (Fundes Chile, 2001).

Clearly, this was enough for a parliamentary inquiry. From ten unanimously approved conclusions, I quote the following three:

> "INDAP has promoted [rural] organization, constituting new organizations or supporting existent ones, and *developing them beyond their capacities*. The organizations received credit but were unable to pay back because of managerial incompetence, and a lack of adequate control (...)
>
> ... Facts indicate there was severe administrative negligence. Credits were extended *without respect of the regulations*. Some organizations did not meet the criteria, others were in default, insolvent, or lacked the necessary guarantees. This led to the loss of fiscal resources (...)
>
> ... To prevent repetition, INDAP needs to restructure profoundly and urgently, clarifying its actions and use of public resources, focusing on viable business projects, and adopting all measures necessary to prevent any possible form of *political or partisan intervention* that might subordinate the interests of smallholder farmers and their organizations" (Comisión de Agricultura, Silvicultura y Desarrollo Rural, 2002: 76-77; my italics; my translation).

Excessive top-down development, disrespect for regulations, and partisan intervention - the parliamentary inquiry clearly suggests that 'patron-client institutionality' continues to shape the development of organizations on Chile's countryside. It is flabbergasting to see that the problems and mistakes of peasant organization under Frei and Allende were being repeated twenty years later, under neo-liberal market policies. With an interval of twenty years a historic drama repeats itself - the paternal state creates symbolic peasant organizations that, after little time, burst like soap bubbles. Surely this is a textbook example of Nietzsche's 'eternal return of the same.' Let us now look at how the drama is produced.

6.3. Problems and mistakes of peasant organization

Curiously, the historical pattern of puffed-up peasant organization has remained unnoticed by analysts, professionals, and policymakers in the field. Perhaps the omission is related to the ideological way in which Chileans tend to assess their recent history. As they look for differences rather than similarities they fail to acknowledge - whether failure is Christian-Democratic, Marxist or neo-liberal - that patrimonial development tends to create only dependency. Reflections upon what went wrong point to numerous problems and mistakes, such as isolation from market signals, inadequate human resources, too risky operations, lack of capital, individualism, and many more. The parliamentary inquiry adds excessive top-down development, disrespect of formal regulations, and partisan intervention. Though correct in pointing out these problems, most reflections fail to see the pattern that connects one problem to another. The

problems faced by the peasant organizations are not simply the caprice of destiny, and the mistakes that have been committed are not simply accidents. The irregularities that have been discovered are not simply the actions of unreliable individuals. There is a pattern behind them, a system. This pattern is patron-client organization.

INDAP is the patron. A patron thinks he knows what is best for his clients. He thinks he knows their problems as well as the solutions to those problems. Who else should know? By definition, clients themselves do not know, after all, they are the ones asking for help. Of course, they will be listened to, yet in the end, they will have to resign to what the patron thinks is best for them. Thus goes the thought style of the paternalistic hierarchy, which, when translated into policies and instruments, generated the excessively top-down development of peasant organizations. Farmers are organized not because they felt a need jointly to tackle a shared problem, but because outside agents told them they should organize, and provided financial incentives and 'road maps' to do so. A former director of INDAP was clearly aware of this problem, when he confided to the parliamentary inquiry that the institute had induced "a process of enforced association - there were mechanisms that in some way forced the creation of groups" (Comisión de Agricultura, Silvicultura y Desarrollo Rural, 2002: 11; my translation). INDAP's support for farmer groups was tied to the condition that farmers would constitute an EAC within three years:

> "After that period of time, if the groups did not manage to achieve these objectives, INDAP would discontinue its support. This policy decision proved to be a grave mistake since it induced farmers to artificially form EACs even when they did not need or want one" (Berdegué, 2002: 27).

A 'grave mistake' indeed, but not an accidental one. Top-down development is inherent in the thought style of paternalistic hierarchies. The patron knows what is best for the client; if the client does not comply, he does not deserve further support. But if the client obeys, he will receive support and protection. A blind spot in institutional thinking, this creates many painful situations (Box 6.2).

Box 6.2: Excessive top-down development
A renowned example of excessive top-down development is a tulip bulb production project in the 8th region, set up as a publicly financed contract farming scheme between a Dutch company and a group of sixty small farmers. After a few years, the project was abandoned because the farmers were heavily indebted and no longer willing to plant bulbs. The commission evaluating the project argues an essential error was that "the project was not proposed by the farmers themselves but rather fabricated in Santiago and from there imposed upon the farmers. The farmers had no idea about tulip bulb production, nor about what a market is, nor about commercial marketing, nor about limited liability companies... Their indebtedness grew year by year as they trusted the support provided by Pacific Flowers and INDAP, yet these made the farmers run into increasing debts as they adhered to the project framework originally approved" (Comisión de Agricultura, Silvicultura y Desarrollo Rural, 2002: 31; my translation).

The negative consequences of patrimonial top-down development are not restricted to extreme cases as above. Confronted with a patron who knows what is wrong and right, the EACs are forced to structure their activities in accord with the format of INDAP's instruments. INDAP does not finance working capital or lump sum budgets; therefore every operation needs separate financing and formal approval by INDAP. This puts a suffocating straightjacket upon bottom-up initiatives (Box 6.3).

Box 6.3: Hierarchical straightjacket upon bottom-up initiatives
As a consultant for Fair Trade, I worked with a group of rural women that operated a small fruit and vegetable processing plant built with a 25,000 dollars subsidy provided by INDAP. Fair Trade asked them for a sample of canned artichoke hearts. In our eyes, there was nothing to lose. Our calculations indicated Fair Trade's price was profitable. Moreover, the samples would be shared by Fair Trade with three partner organizations in other countries with even higher consumer prices. Finally, even if it did not take off, it would at least be a good training experience in catering international quality standards. However, judging that the profit margin was not attractive enough, INDAP refused to finance the costs of preparing and sending the samples (a fraction only of the initial investment), leaving these women with a beautiful plant but no operations.

The patron assumes paternal responsibility for the well-being of his clients; a responsibility that goes beyond the immediate domain of the business transaction. As long as clients are not expelled from the *hacienda,* the patron will take care of them providing integral support and protection, particularly in emergencies. Likewise, INDAP's support for EACs is not reducible to the cold logic of technical policy criteria. It is rather like the support provided by a father to his children. INDAP gives birth to EACS, nurtures and rears them, until they are mature and can live on their own. As long as EACs live within INDAP's policy domain, the institute tends to assume full responsibility for their well-being. This paternal thought style explains why the institute allowed the rates of repayment to fall below thirty percent:

> "EACs which did not quickly show clear signs of success, soon fell into the protective embrace of the government agency and lost much of their autonomy. The reason is clear: once a government agency and its officials have invested in an EAC, they will do anything to prevent it from going under, for they are not willing to pay the political cost of failure. This occurs even when the EAC's failure cannot reasonably be attributed to a mistake or omission by the government agency" (Berdegué, 2001: 257-8).

To me, the reason is not so clear as it is for Berdegué. Of course donor relations are prone to over-protection, but massive excessive indebtedness will occur only in support systems where paternalistic engagement prevails over business criteria. Such systems accommodate two pitfalls. First, responsibility is not where it should be - i.e. in the hands of the cooperative. Unless the EAC is responsible for the business decisions it takes, it will become isolated from market signals, and increasingly dependent on external support (Berdegué, 2001). Second, paternalistic protection impedes institutional learning processes by the donor because it makes it difficult to bring problems out into the open for discussion (ibid.). This ultimately leads to a climate in which corruption flourishes (Box 6.4).

Box 6.4: The 'bicycle'
One of the events triggering the parliamentary inquiry was the irregular extension of 2.5 million dollars to two peasant organizations 'of the right color.' Though formal regulations explicitly prohibit INDAP to extend credit to over-indebted clients, both organizations were heavily indebted but continued to receive new loans. They used these loans to repay existing ones also provided by INDAP. Their indebtedness grew so extreme that it ended up being inspected by the National Comptroller. Yet this arrangement of borrowing money to pay existing loans is so institutionalized that the Chileans have a name for it - la bicicleta (the bicycle). Apparently, paternalistic protection is a stronger institution than formal regulation.

A patron prefers some clients over others. Indeed, particularistic (as opposed to universal) criteria for allocation of resources are the crux of the patron's control. By privileging a few loyal and obedient clients, the patron stimulates the excluded majority to display the same behavior. This paternalistic management tool appears manifest in INDAP's operations. It is true that its formal regulations are strict, detailed, bureaucratic and time-consuming - a complaint shared by all organizations working with the institute. Yet formal regulations are never waterproof against particularistic forms of resource distribution, as can be concluded from the parliamentary inquiry. Indeed, though it might suggest otherwise, the excessive bureaucratization of the institute is in itself evidence that there is particularistic distribution of resources (just as the existence of old people's homes in the western world indicates that our care for the aged is problematic, though it suggests the opposite). The parliamentary inquiry even suggested political and partisan influence upon the distribution of resources by INDAP. Representatives of INDAP employees said to the commission "It is necessary to depoliticize the institute - there are many parliamentarians who act directly upon INDAP in order to obtain credits for certain functionaries or organizations" (Comisión de Agricultura, Silvicultura y Desarrollo Rural, 2002: 59; my translation).

A patron expects loyalty and unconditional support from his clients. I found this paternal thought style manifest in INDAP's attitude on two occasions. The first time was during the presidential elections in 2000, fiercely contested between the center-coalition *Concertación* and the right-wing platform *Alianza* por *Chile*. None of the candidates had gained an absolute majority in the first round, hence, a second round was needed, leaving the country in a state of commotion. For the first time in more than forty years, a right-wing government could come to power by democratic means. The *Concertación* mobilized all forces for a finishing spurt in its campaign. Many offices closed their doors, as white collar employees were out on the streets collecting votes. The main institute on the Chilean countryside, INDAP played a special role in the electoral contest. Several EACs confided to me they were approached by INDAP officials with requests for financial support for the campaign. The message probably was something like: "Without your support, we may lose the elections and be unable to continue supporting you." Off the record, of course.

A second occasion in which INDAP requested support from its clients was when the institute itself was under fire by the parliament (Box 6.5).

Box 6.5: Paternalistic attitude of INDAP officials
In October 2001 I attended a meeting of regional peasant leaders and government officials from the 5th region. In his opening speech, the regional INDAP director referred to severe criticisms in the national press. Besides the irregular extension of credits to organizations, the institute was being criticized for the low repayment rates by individual farmers. The institute had been summoned by the Congress to do something about it, on the threat of not passing the 2002 bill. So INDAP launched the program "Betting on the winner" which offered a 10 percent discount on all individual credits paid back in time. The director asked his audience:

"Please, help us in this. We are there for you, and you are there for us. We need to help each other, especially now."

When the audience suggested that farmers could not pay back in time because the credits were also not given in time, the director replied:

"Yes, there is a problem there. But our new national director, I just met him, he assured me he wants to return to the old days, to the word of honor that existed in the countryside. He wants money to be extended on the basis of trust, without so much weight of documents and bureaucracy."

Hence, while the institute is being accused of fraud and disrespect for regulations, one of its regional directors declares the way forward is relations of mutual trust and support rather than formalization and control.

Due to this emphasis on dyadic loyalty, the EACs have little scope to exhort the institute to improve its services. Indeed, they seem to perceive INDAP's services as privileges they may receive rather than rights they are entitled to. This brings us to consider the position of the EACs as clients of INDAP.

Clients are by definition dependent upon their patron. There are some exceptional cases where clients manage to accumulate sufficient capital to leave the *hacienda* and begin for themselves. But the great majority remains structurally dependent on the patron. This is the situation of most peasant business cooperatives. In the first place, they are economically dependent upon state subsidies:

> "Only around one-fifth of the EACs could survive if the current government programs were suddenly discontinued; an additional fifteen percent could probably consolidate their position reasonably quickly if they changed their way of doing things" (Berdegué, 2001: vii).

In the second place, many EACs are managerially dependent upon outside support. Almost half of them are in want of paid professionals. "The members themselves are most often in charge of management, clerical or technical tasks" (Berdegué, 2001: 69). It is doubtful, however, whether EACs with professional managers are any better off. As eligible managers are not interested in working for a peasant organization, the EACs revert to agronomists or veterinarians to fill up management positions. Due to lack of

professional expertise, many core management tasks, such as the development of business plans, are given to external consultancy firms. These consultants, in turn, fail to build up durable management capacities within the EACs, as they are "accustomed to working within the linear transfer of technology paradigm. Their outlook is one of delivering ready-made options and solutions to well-defined problems and constraints" (Berdegué, 2001: 258). For instance, their technical assistance "does not allow farmers to advance progressively. Technical recommendations are repeated year after year, without any change, and without offering new alternatives to experienced farmers" (Díaz, 1992: 192; my translation). Yet lack of competence is not the only problem. The system itself lacks performance drives to transfer capacities. The consultancy firms are evaluated on the basis of individual projects rather than the durability of impacts. Whether their plans and recommendations are actually implemented, and with what results, is not part of these evaluations. In fact, as dependent EACs are their market it could be argued it is their interest to keep the EACs dependent. Anyway, the outcome of the system is that most EACs are structurally dependent upon external advisory, and that consultancy firms are among the main beneficiaries of INDAP's subsidies.

Yet the client's dependency is not only an objective fact but also cognitive. Born and raised on the *hacienda*, the client has learned to use his dependency relation as his richest resource. Fatalistic livelihood strategies are manifest among many EACs. Out of all possible solutions to a problem of scarcity the EACs chose automatically for one single option - to apply for state subsidies. Internal options like membership fees, stock arrangements, or the obligation to sell produce through the cooperative, are scarcely used (cf. Barría et al., 1991; Gómez, 2002). Instead of welcoming external support as a helping hand to achieve the organization's objectives, many EACs tend to live on and for external support. Most EAC workshops I attended were as lively as a Saturday market when discussing demands *vis-à-vis* the state, but as depressed as a funeral when discussing internal potential. INDAP's model of patrimonial development has generated organizations that are both materially and cognitively dependent; organizations that suffer from internal distrust, lack of commitment, and lack of participation. Without a sense of ownership and without internal investments, the EACs can hardly be expected to develop into durably successful market participants (Box 6.6).

The cognitive dependency of EACs is clearly reflected in the widespread belief among EAC managers that the reason for failure is a lack of public subsidies (Berdegué, 2001). This belief is shared also by the patron. A former director of INDAP told the parliamentary inquiry that the key problem was "the tendency to promote agrarian diversification and peasant organization on the basis of loans rather than grants, while the latter is the best way to accomplish the take-off of smallholder agriculture" (Comisión de Agricultura, Silvicultura y Desarrollo Rural, 2002: 13; my translation). Interestingly, Berdegué's statistical analysis shows the opposite is true, demonstrating a strong correlation between failure and external financing. "The more successful EACs are distinguished by their ability to generate income from market sales" (Berdegué, 2001: 107).

Box 6.6: Top-down development as the mother of all problems
In April 2001 I was involved in a one-week mission by two representatives of the Dutch agricultural cooperatives - one from the Greenery, the other from Rabobank - to assess the situation of cooperative peasant businesses in Chile and the possibilities of cooperation with Dutch counterparts. The Rabobank representative was flabbergasted when he found out that members of cooperatives in Chile are not obliged to sell their production through the cooperative, and refuse to mortgage their land as a guarantee for investment loans. His assessment was crushing:

"These are no cooperatives, at least not what Rabobank understands cooperatives to be. The idea of a cooperative implies that individual farmers acknowledge they have problems in common, and that they unite devotion and resources to solve those problems together. The cooperatives here don't work like that. They exist because somebody thought that the farmers should organize and is willing to spend money on organizing them! The members here don't contribute; they just expect benefits to trickle down. The basic elements of cooperative thought are absent in Chile".

With the fresh insight of an external observer, the Rabobank representative pointed his finger to the essential problem of the Chilean peasant movement - its top-down origin.

Yet clients are not only servants, but also patrons themselves. They copy the leadership style of the patron in their internal management, thereby creating a hybrid organizational model in which external relations are ruled by clientelistic fatalism, and internal relations by paternalistic hierarchy. Instead of operating with clearly defined objectives, the EACs tend to have blurred but all-encompassing objectives and offer a wide variety of services, as if they were trying to provide a total life-support system to their members. In an assessment of 156 EACs, 85 percent turned out to have no business strategy (Fundes Chile, 2001). In their business brochures, even the smallest EACs claim to be producing a dozen high-quality products, and if the business data in INDAP's *Directory of Peasant Business Firms* (2002) are correct, then there is no need for further support to the sector. The EAC's lack of defined core business is related not only to managerial incompetence, but also to the expectations of the members. Few farmers conceive of their cooperative as a business firm in which they participate and share risks because they have a clear goal in mind which is attainable only by collective effort. They rather expect their EAC to be a sort of community providing benefits and support in times of need. In workshops with organized farmers, the recurrent answer to the question why they are organized was "because it is important to be organized." That is a farmer joins an organization so that whenever he has a problem he can revert to the organization in search of a solution (Box 6.7).

Box 6.7: All-encompassing organizational objectives
The so-called *Centros de Gestión* (management centers) are state-financed farmer organizations providing training and marketing support to members, in order to transform them into agrarian entrepreneurs. They tend to work with the finest smallholder farmers - those who are (relatively) capitalized, market-oriented, innovative, and for years involved in rural organization. In November 2000 I was involved in a consultancy assignment to a *Centro de Gestión* which had just completed its first five-year term and needed advice in formulating a new working program. One of our activities was a workshop with the farmers to know what they expected of the center for the coming years. Some of the answers were as follows:

"We can do anything. We can create a sports center, install a cinema, operate a health center. We can be the number one management center in the country; that's very important, to be number one".

"We need somebody to lean on, somebody who cares about us, somebody who has the contacts".

"The center should improve the quality of life of the farmers. That implies... everything, all!"

Hence this (relative) elite of smallholder farmers, already organized for five years in a business-oriented set-up, expects the center to be a caring father ready to support them in anything they may need.

Needless to say, these vague organizational objectives inspired by hopes of paternalistic protection do not contribute to the construction of competitive business firms. For instance, few EACs have internal systems of rules that transmit market signals directly to the members. The costs of underperformance by some are partially carried by the organization and other members. This stimulates free rider behavior, as the cost/benefit ratio of participation is not related to individual performance (Box 6.8).

Box 6.8: Paternal protection hampering business performance
In December 2002 I worked with one of Chile's most successful peasant cooperatives - an EAC exporting bottled wine to the European Fair Trade market. This organization clearly had above-average competence. A sample of this was its system of quality control. A technical commission composed of three members realized year-round control of the vineyard management by the members. In wine production, year-round monitoring is necessary because not all quality properties can be measured in tests of the grapes during harvesting and processing. For instance, aroma and flavor cannot be measured, but are related to the timing with which vineyard management tasks are performed.

The monitoring system had been implemented three years ago and operated perfectly. The commission managed to monitor and classify all vineyards, and all members accepted its authority. Nevertheless its findings were forgotten about at the moment the company was to decide about purchase prices and volumes. Disposing over excellent information regarding qualities, the company continued to purchase equal volumes among all members at undifferentiated prices, thereby rewarding inferior quality at the expense of high quality. Though the organization was well aware of the need to produce quality (after all, it had implemented a quality management system) paternalistic protection continued to prevail over business criteria. Consequently, the wine was of a mediocre quality and the top producers were about to leave the organization, as they felt that investments in quality were left unrewarded.

The same informality rules decision-making processes. Operational records, market studies, performance standards, scenario building, quantitative analysis, budgeting, monitoring and evaluation - the basic elements of professional decision-making are normally non-existent. Due to a lack of resources, power and information are concentrated into the hands of either the manager or the president. Decision-making is largely based on personal intuition, as the board of directors normally lacks the skills and information properly to exercise its function of control. The boards are composed of "charismatic leaders who attract and steer masses" but are "not necessarily good administrators - they do not see book-keeping as an instrument for transparent, participative decision-making" (Barría et al., 1991: 558; my translation). As stated earlier, an assessment of 156 EACs found that book-keeping was unreliable in half of all cases, and non-existent in 16 percent of all cases (Fundes Chile, 2001). Numerous are the stories of presidents and managers who abused their position to ensure personal enrichment or who cast pearls before swine without anybody stopping them in time.

Interestingly, Berdegué found that EACs embedded in small rural communities tended to have better control, and higher levels of trust and participation. "Formal management or organizational procedures... can never fully replace the quality of interactions based on social and geographical proximity" (Berdegué, 2001: 256). Indeed, in patronage systems, trust is based on personal interaction rather than on formal procedures. But most EACs lack this community base and thus evolve as isolated organizations plagued by distrust, indifference and fatalism. Due to its arbitrariness and informality, patron-client management is ill-suited to systems of concerted competition.

6.4. The reproduction of patron-client institutionality among peasants

So far we have discovered that a pattern of 'patron-client institutionality' underlies the historic drama of the Chilean peasant movement. Now it is time to ask why the pattern is maintained in spite of its clear disadvantages. What are the mechanisms that reproduce patron-client institutionality in Chilean peasant organization? Grid-group theory posits that social organization is viable only when there is a mutually supportive relationship between the structure of the organization and the pattern of ideas and behavior of its members. Structure and attitude must match. Figure 6.1 shows how the structure and attitude of peasants, rural organizations, and INDAP are perfectly attuned to each other, and thus sustain patron-client institutionality on the countryside. Hereafter follows a brief review of this vicious circle of patron-client organization.

The members of the EACs are fatalistically organized - they experience strong external constraints (high grid) and a low sense of belonging to their organization (low group). Their organization is not performing well, they lack control over the management process and the internal system of rules is weak and arbitrary. Their EAC is a failing institution, and this is accepted as a historic inevitability. In their eyes, the Chilean

peasant movement has always been repressed and betrayed, first by the landlord, later by party militants, peasant leaders and professionals. Therefore, rather than actively participating and contributing to their cooperative, they prefer to wait and see which way the cat jumps. When the organization starts to render benefits, they may decide to involve themselves more actively. In the mean time they may receive benefits anyway, without incurring major costs or risks.

The management of the EACs is a hybrid of paternalism and fatalism. On the one hand, it perceives strong external constraints (high grid) and may even feel abandoned to its fate (low group). On the other hand, it has a sense of gratitude to INDAP, and a strong vocation for smallholder family farming (high group). The manager perceives that members do not contribute to the organization and that everything depends on him. He accepts this as a given fact. For how can he ask poor peasants to sacrifice scarce resources when the EAC is not able yet to provide them with clear benefits? And how can he expect them to plan and control the EAC when they do not even know how to differentiate a balance from a profit-and-loss account? In order to convince the members to participate more actively, and thus make the organization stronger, the manager reckons he should first acquire external support and provide tangible benefits to the members. Unfortunately, long-term planning is impossible, due to his dependency upon INDAP, a political institution whose instruments change by the year and whose resources follow partisan preferences. Business plans, membership fees and administrative procedures are all of secondary interest. He must first accomplish short-term success, later on, when things are better, things will get more organized. Where others have failed, he will succeed and show it is possible to set up a profitable peasant business firm.

INDAP is a paternalistic hierarchy - a state bureaucracy (high grid) with a strong corporate identity and pride in its historic role as benefactor of the Chilean peasant (high group). INDAP perceives the EACs are incompetent, dependent, unprofessional, unreliable, and in need of outside expert support. By definition, this support must be paternalistic. For how can you expect smallholder agriculture to develop by itself? A peasant does not know how the market works; he needs to be taught how to operate. There is no magic formula for success, yet the instruments improve every year as the institution learns from past mistakes. Strict control is a necessary evil, considering the incompetence of peasant leaders and their lack of formality. Paperwork and time-consuming procedures are preferable to a Right-wing attack on the institution. Yet INDAP understands that opportunity is important in farming. Therefore those with proven trustworthiness get special treatment.

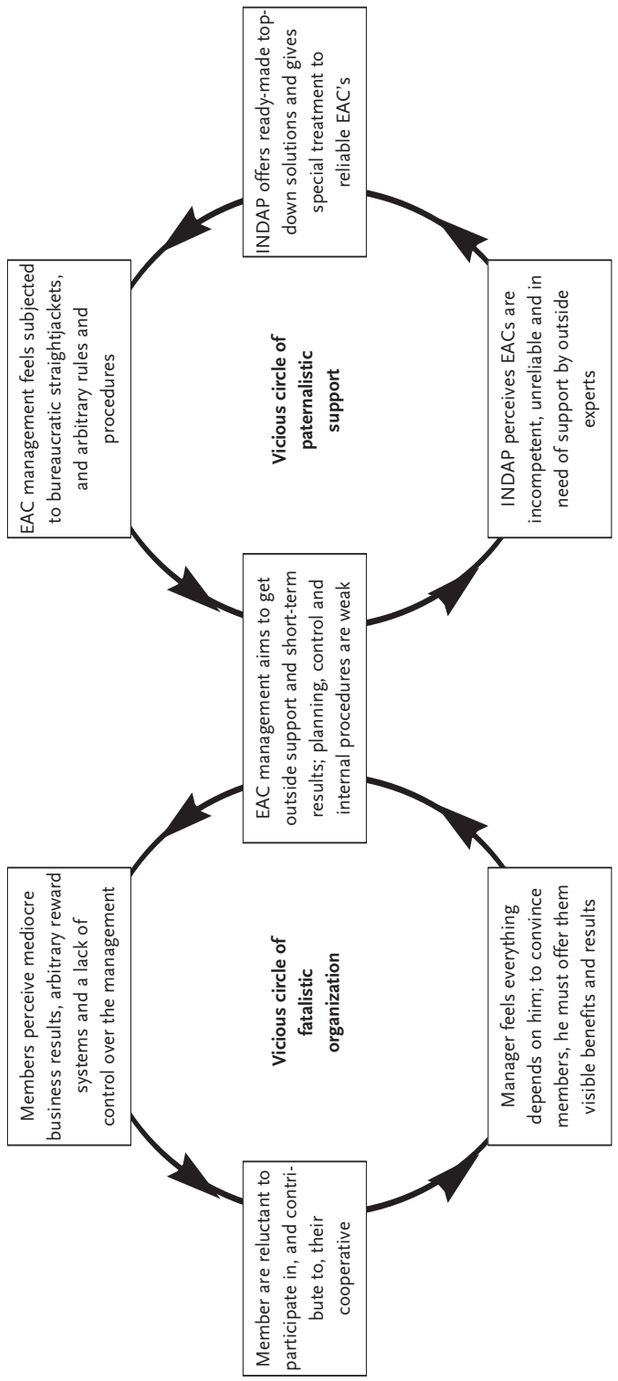


Figure 6.1: The reproduction of patron-client institutionality in rural organization

As shown in Figure 6.1, the organization, cognition and behavior of the three sets of actors maintain vicious circles of paternalistic support and fatalistic organization. The vital element that makes the actors maintain this system of patrimonial development is the thought that they can make a difference. Indeed, some are so gifted or lucky that they accomplish viable business projects. Yet the majority drown in the system, as they solve one problem by creating another, unaware of the compelling circularity in which they are involved. The majority is system-locked, and this contributes to the historic durability of 'patron-client institutionality' in Chilean peasant organization.

6.5. Towards viable peasant organization

At this point, the full implications of a seemingly obvious argument has become clear. 'Patron-client institutionality' is not merely one of the numerous problems of Chilean peasant organization but rather a self-sustaining system underlying these problems. Now it is time to ask what can be done about it. How can we surmount 'patron-client institutionality' and accomplish viable forms of peasant organization?

If there was a magic formula for success, it is unknown to me. My personal interventions as consultant always came up against critical limitations and remained ultimately system-locked. I could be positive and talk about minor changes and exciting learning processes, such as the creation of AgroChile, a national business platform for peasant cooperatives. Explicitly rejecting the paternalistic support model, AgroChile presented itself as a fully-fledged business partner for both the public and private sector. Its task was to mediate the needs and ambitions of its member cooperatives to those of state agencies and agribusiness firms. For two years it operated with a small fund from its members and financial support from the Dutch agency Agriterra. But the Chilean state was reluctant to support the scheme. Due to its urge for bureaucratic control, INDAP refused to co-finance business plans, provide working capital, or couple project funds to long-term programmatic commitment. This lack of response was understandable. Under a sleeping board of directors the manager invested too much in dreams and too little in solid plans and capacities. By the time internal things were sorted out too many resources had been wasted and Agriterra decided to pull the plug. Due to weak internal procedures, a lack of business focus, and dependency upon a paternalistic support system, AgroChile failed to overcome the critical limitations of 'patron-client institutionality.'

AgroChile-like, none of the consultancy interventions I was involved in had lasting impacts. As long as I was around to steer, explain and motivate, things more or less resulted the way I wanted. But as soon as I was away things continued as before. My interventions thus came up against one of the defining properties of patron-client institutionality - the need for one-man leadership. Though my interventions were geared at transferring capabilities they never came close to altering the patriarchal leadership

model. Nevertheless, I would like to share some insights I found useful while working in the field. Most important is the point that patron-client institutionality is not a relic of the past about to disappear, but a self-sustaining system which continues to shape organizational models and attitudes in the Chilean peasant movement. It is not just one of the problems of peasant organization in Chile, but a basic structure which generates many problems, mistakes and irregularities. This is because patron-client organization is to some extent incompatible with systems of concerted cooperative behavior (Table 6.1).

Table 6.1: 'Patron-client institutionality' versus concerted cooperative behavior

	Patron-client institutionality	**Concerted cooperative behavior**
Ownership	Problems and solutions are defined by the patron; members are beneficiaries of a solution.	The cooperative is the solution to a perceived common problem.
Organizational rules	In name of solidarity, rule enforcement is weak, market signals distorted and cost/benefit ratios disproportional to performance.	Organizational rules pass undistorted market signals directly to the members. Solidarity exists in giving somebody a second chance.
Decision-making process	Decision-making is blurred by paternalism. Informal trust prevails over formal planning and control.	Formal planning, monitoring and control generate trust and accountability.
Management	Management is geared at short-term outside support rather than internal potencies.	Management is geared at systematic growth and continuous improvement to remain competitive.

Yet I do not plead categorically against patron-client institutionality. Within the context of Chile, it is an inevitable, legitimate, and potentially efficient management model (cf. Rodríguez, 1999). The Chilean peasantry cannot be expected to organize itself in the same way as Dutch farmers set up agricultural cooperatives one-and-a-half century ago. Departing from a situation of 'patron-client institutionality,' the Chilean peasantry has its own mode of organization - one that is likely to be based on hierarchical relations and strong leadership. Acknowledgement of the patrimonial nature of Chilean peasant organization clears the way for finding more viable forms of organization. My critique is thus not against 'patron-client institutionality' but rather against the denial of it. Patron-client institutionality should be taken into account as a factor in itself in the design of more robust forms of peasant organization. This redesign process must be geared at finding middle-ground solutions for each of the four incompatibilities presented in Table 6.1.

Concerted competitive systems are a collective solution to a perceived common problem. They require shared ownership. Without shared ownership, the organization will be unable to mobilize internal potencies needed for tackling the difficulties it will encounter on its way. Due to its top-down origin patron-client organization has a weak sense of shared ownership. Neither problem nor solution has been collectively defined. To generate shared ownership member farmers should be obliged to invest capital in the production schemes in which they participate, for example by taking stocks in exchange for output. This requirement must be strictly adhered to, even though it may imply working with only a small part of the target group. The thought that peasants are too poor to contribute resources will undermine the organization as a whole.

Concerted competitive systems are inter-mediating enterprises through which farmers relate to markets. They must be ruled by business criteria; the only difference to private contract schemes is that the contractor is in hands of the contracted. But patron-client organizations do not adhere to this supply chain concept. Reproducing the archaic *hacienda* concept, they allow members to exploit their individual firms - their 'tenant plots' - while the cooperative - the '*hacienda*' - is expected to protect them against the harsh hand of the free market. Where the landlord demanded labor services, crop shares and unconditional loyalty in exchange for protection, the peasant organization fails to enforce contributions to the collective. In the name of solidarity, the cooperative assumes the costs of mitigating the effects of the free market and thus develops a corrupt organizational climate, prone to free rider behavior. Such organizations need a redefinition of the relations between the collective and the private domains within the organization. Rather than protecting the members against the free market, the role of the cooperative is to assist them in operating on the market by professionally mediating relations to the outside world. Solidarity exists in preparing the members to meet market requirements and in giving them a second chance. But it should not isolate the members from market signals. For instance, in the case of a joint marketing scheme, the prices must be differentiated according to quality. Top farmers must receive the same price as they find in the free market, so as to keep them inside the organization, while stragglers should be subjected to an obligatory quality development plan. If they fail to implement the plan they should no longer have access to the joint marketing scheme.

In order to generate trust and accountability, concerted competitive systems must use their administration to inform and socialize the decision-making process. But patron-client organizations rely on interpersonal trust and paternalistic leadership rather than formal planning and control. They postpone investments in administration, thinking that right now resources are too restricted and other problems more urgent. This pitfall must be avoided at all cost. Concerted competitive systems cannot manage without mechanisms that generate transparency and accountability. Bookkeeping should be conceived of as a tool for management and control rather than as an administrative burden.

Once the previous three principles have been realized, the peasant organization will be in condition to plan and steer its own development. Rather than seeking short-term external support, the cooperative should mobilize internal potencies for achieving continuous improvement and systematic growth, like any of its competitors on the free market. No matter how restricted resources are, it must not fling the principles of good organization to the winds, hoping that in the future it may be in condition to apply them fully. This avoids getting trapped by the problem-generating circularity of patrimonial development.

As easy as it is to spell out principles of good organization, it is much more difficult to find ways to implement them in real life. On the short run, I see no other option than that peasant organizations remain steered by strong leaders in a top-down way. Perhaps the future for the Chilean peasant movement is that its patrons will begin to recognize the vicious circle of patron-client organization in overt terms, view their activities from this perspective, and thus learn to become better, more effective patrons. Rather than providing blueprints, I would like to recommend a flexible problem-solving tool that may be applied in any particular situation. Grid-group theory - and the understanding of 'patron-client institutionality' that derives from it - is a useful heuristic device for designing interventions in management and organization. Particularly valuable are the insights concerning the interconnection between structure and attitude. They make clear that organizational change must go hand-in-hand with cognitive and behavioral changes. Training for organizational skills is useless without simultaneously creating institutional niches to deploy these skills. In this way, grid-group theory enables us to outline directions of organizational change so as to accomplish the social practices we desire. Grid-group theory is a perspective, a way of looking at peasant organization, which distills patterns and connections from the immediate day-to-day problems that bother cooperative peasant business firms. It is a reliable compass in the immense ocean of organizational dilemmas. If the patrons of Chilean peasant organization start using it, a potential for change will be opened.

Chapter 7 Paternalism on the shop floor

7.1. Introduction

This chapter analyzes business management and working relations in Chile. Business management is not ranked among the country's competitive advantages - on the contrary, it is a matter of public concern. While technological innovation dominated the national development agenda until the early 1990s, management and organization are now priority number one. Management curricula pop up throughout the country, and state subsidies are amply available for companies that wish to tackle managerial flaws. Top concerns are human resources, quality assurance, planning and control, and supply chain management (Castillo et al., 1996; Díaz, 1996).

This chapter will trace how 'patron-client institutionality' is reproduced in Chilean-style business management. For instance, the strong centralization of authority in Chilean firms is not merely a matter of instrumental necessity, but also rooted in the culture of paternalism. Likewise, the widespread application of Taylorism is often not driven by a quest for scientific efficiency, but rather by an urge by hierarchs to feel in control. On the other hand, perhaps as a counterbalance to high-grid aspects, shop floor relations tend to emphasize interpersonal loyalty and togetherness. The instituted availability of personalized support in times of need encourage workers to feel part of the company, as if it were a family. Hence, combining strong hierarchy with instituted personalism, Chilean management practices once again manage to accommodate the core principles of patron-client institutionality found in the wider society and rooted in its colonial history.

Showing how the culture of paternalism also shapes the Chilean shop floor adds some last pieces of empirical evidence to the proposition in this study. The chapter starts with a case study of farm management, and then reviews the literature on business management in Chile. It concludes with a study of an agro-industrial firm that sought to improve its performance through participatory management. Once again the argument is that participation runs into the problem of an unanalyzed vicious circle. Addressing this circle in overt terms is the beginning of wisdom.

7.2. Business administration on a farm enterprise

Farmers I arranged to meet with would normally not be home at the time agreed upon. Upon my question where to find the farmer, the workers would point to some direction and reply: “The patron is over there.” This choice of words is not accidental. Farmers in

contemporary Chile are, of course, incomparable to the traditional landlord. But many organizational features of the *hacienda* persist on modern Chilean farm enterprises. This will be illustrated by the case of Nano Contreras, one of Chile's largest tomato growers. Originally a bus driver in Santiago, Don Nano came to the 7th region in the late 1980s. Starting as a small-scale land renter, he grew into a highly respected medium-sized farmer with ample land and machinery resources (Table 7.1). Don Nano is currently the largest supplier of Tomatio, and the number one producer of pumpkins in the region. He presides over the local soccer club and the regional 'management center' - i.e. a state-financed agency that provides professional support to farmers to enhance their managerial skills. Don Nano's self-made status suggests his managerial skills are above average.

Table 7.1: Profile of Don Nano's farm enterprise (2000)

Annual sales	US$ 250,000
Crop area	120 ha (85% is rented)
Main crops	Industrial tomato, pumpkin, onion, asparagus
Permanent workers	12
Temporary workers	60

Source: fieldwork

But no single element of professional management, as known in Western companies, is traceable on Don Nano's farm. A vanguard entrepreneur, Don Nano steers his firm by customary practices, relying on tradition, intuition, and unsystematic rules of thumb. All decision-making power is centralized into his hands. He assumes full responsibility and does not delegate any authority to any of his twelve permanent workers. Trained on the job, the workers are specialized in, say, irrigation management or tractor operation, but they do not carry out functions with defined sets of responsibilities. Tasks are assigned day by day, early in the morning, directly by Don Nano. The workers execute these orders, and tend not to reflect upon their work. The operator of the tractor, for instance, does not notify what parts might soon need replacement. The employees work independently from each other, and seem unconcerned as to how their performance might influence others. Between them there is no formal communication; all questions are passed upward for decision.

There are no formal operational procedures nor planning instruments. There are no records to keep track of costs, stocks, or performed tasks. In consequence, decisions are based on intuition rather than analysis. Non-economic considerations also play a role in the process of decision-making. Aware of his responsibility as a generator of local employment, Don Nano maintains several unprofitable lines of production to keep his "economy" going and his people working. The pace of work is easy-going. The workers are not continuously driven; outside harvest peaks there is plenty of idle time. But they do need to show full commitment and disposition. Without formal contracts or working schedules, the workers must be ready any time for any kind of work.

The relationship between Don Nano and his workers goes beyond that of a boss to his employees. Respect, loyalty and trust are central values in a multi-stranded, long-lasting, personalized relationship. Don Nano feels responsible for his workers and their families, showing concern over aspects of their lives that have nothing to do with the work performed. Besides wages, Don Nano may provide his workers with housing, a plot of arable land, and school materials for their children. He is expected to help them out in emergencies like hospitalization, and to show a generous hand during festivals and celebrations. These expectations derive from a relationship perceived in patriarchal-familial terms, which define Don Nano as the benevolent but stern *patrón*, and his employees as loyal, obedient dependents. The degree of hierarchy in this relationship is not merely a matter of instrumental necessity, but contains a cultural notion suggesting that Don Nano is in control because of his superiority.

Admission to the company is not based on evidence of technical competence but on acquaintance. The initial relationship is limited to specific tasks, but if trust and affection grow, the liaison develops toward the long-lasting, multi-stranded relationship described above. In case of fraud or theft, dismissal is not automatic. As long as mutual attraction persists, other measures might be taken instead to prevent repetition. Should either party perceive that mutual advantage has disappeared, he may end the relationship (cf. Hanks, 1977).

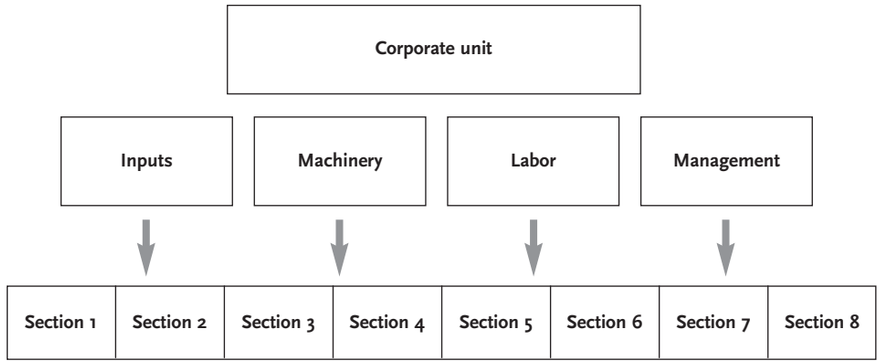
This patron-client model of management has worked well for Don Nano. Starting from scratch, he gradually built up a vanguard farm enterprise with a respectable turnover and good profitability. But Don Nano's fortune ended in 2000. Two successive seasons of negative business results saddled the company with a huge burden of debts. As there were no clearly identifiable technical reasons, the thought occurred to Don Nano that the problem might be managerial. Hitherto, Don Nano had never thought systematically about how to run his company. He had adopted paternalism as the natural way of steering his enterprise. But now he realized his firm had grown too large for him to continue to exercise personal control over all workers and operations. All sorts of inefficiencies came to the surface, such as needing a tractor part in a town 20 km away, while sixty people are on the field harvesting the crop. Or the loss of capital through year-round pilferage of tiny unregistered inputs by the workers. Or the loss of quality due to lack of direct communication among the workers. More than anything else, Don Nano lamented the passive working attitude among his employees - their unwillingness to plan ahead and their lack of disposition to take responsibility.

These problems motivated Don Nano to seek professional advice for improving his management. He came to realize that management is a competitive asset in itself:

> "I have been highly successful in the past decade. I know how to obtain high yields in the field. Nowadays, this is no longer sufficient. In today's agriculture, competition is globalized and one needs to pay attention to every little detail. One needs to have control, to be on top of things. If I want to remain competitive and to keep farming, I must learn to become an efficient manager."

Supported by me and a junior professional from the 'management center', Don Nano embarked on a program to modernize the management of his farm. Our plan comprised (a) the definition of formal units, functions and procedures, (b) the introduction of records and management software to build up a system of operational control, and (c) monthly workshops with the workers for training and evaluation. We designed a new company structure, in which a central corporate unit was to provide inputs, labor, managerial command, and machinery services to eight decentralized field sections (Figure 7.1). These sections would function as separate cost-centers under the charge of 'section heads.' Records would keep track of their performance and of the services provided to them by the corporate unit. After two seasons operational standards would be developed and a performance-related reward system introduced. On paper the plan appeared to solve the two problems that most bothered Don Nano - his lack of operational control, and his workers' passive working attitude.

Figure 7.1: The new company structure for Don Nano's farm enterprise



By virtue of the participatory workshops, the workers embraced the changes with a fair degree of enthusiasm. Everybody endorsed the need for more control through well defined procedures and responsibilities. Communication practices and the general sense of responsibility clearly improved. The section heads visibly enjoyed their new status and bravely maintained their records. The administrator put much effort into taking stock of the warehouses and processing all the data generated by the records. The tractor operators were less cooperative, arguing that to improve their performance they needed no paperwork but mobile phones. But the main source of resistance to change turned out to be Don Nano himself. He had set his mind on turning his company into a franchise type of holding, under which the section heads were to operate as semi-autonomous entrepreneurs. But in practice, Don Nano failed to provide them room for independent decision-making. Don Nano held on to his superior technical knowledge, was reluctant to delegate authority, and continued to provide day-by-day instructions. On

top of this, he tended to exempt himself from the obligation to keep track of daily activities.

Don Nano's lack of discipline and his lack of trust in the section heads gradually undermined the constituency for change. The Mantra "change is fine, but it should start at the cupola" began to dominate the monthly evaluations. Instead of setting the example, Don Nano sabotaged the process. The tractor operators felt confirmed in their rejection of records as despicable bureaucracy. The section heads felt uncomfortable to be held responsible for decisions they had not been allowed to take by themselves. The records became poorer and poorer, and at the end of the season, the data was insufficient to provide good insight into the performance of the different sections. This lack of visible result further undermined the spirit of change, and after two seasons the experiment was aborted. Don Nano's old habits had proven stronger than his ambition to modernize. He came up with a radically different solution to his problems. He decided to give up his side-line activities and stake everything on tomato, planting an unprecedented area (85 ha) to try to get rid of his debts in one or two seasons. Thereafter, he would shrink the company to approximately 60 ha, a scale at which he could still make good money, but at a lower pace:

> "I have gone a bridge too far. My debts are killing me. I cannot sleep anymore. That's no good. All my life I have worked like a buffalo, I think I deserve some peace of mind. That's why I decided to take a step backward. But first I need to clear my debts."

Had Don Nano invested more resources in professional guidance, or had he been more of a facilitator himself, then he might have found a way to train his workers, increase their competence and gradually delegate authority to them. But Don Nano was, of course, part of the problem. The passive working attitude among his workers was cause and effect of Don Nano's lack of trust in his staff and his excessive interference with each and every task to be performed. A huge discrepancy existed between Don Nano's patriarchal way of doing and the franchise type of company he desired. There was no compatibility between 'structure' and 'attitude,' hence, the new company model was unviable.

Don Nano's patriarchal management style is not an isolated case. Many Chilean farmers adopt the patron-client model as the natural way of steering a company. Centralized control, intuitive decision-making and dyadic command make up what may be termed 'Chilean-style farm management.' The benefit of this managerial approach is that it revolves around the farmer as a person, the farm as a household, and farming as a lifestyle. Social considerations are fully integrated into managerial decision-making, in an organization which is both a working and living community (cf. Verweel, 2000). But this room for humanity is obtained at the expense of economic optimization. Lack of cold efficiency is an eyesore to the Chilean government. In a joint project with the European Union, it created a network of ten regional management centers throughout the country to turn family farmers into fully-fledged agrarian entrepreneurs (Ortega,

1998; Fundación Chile, 1999). It is not my intention here to evaluate the effectiveness of the nine million euros thus spent. But illustrative is the fact that Don Nano was the first farmer in the 7th region to try and implement the managerial tools of that region's management center (after five years of operation). Blinded by a technocratic focus on organizational tools and charts the management centers fail to see the cultural and historical dimensions of patron-client management. Thus they lack the expertise to tackle paternalistic farm management as an institutional culture with a strong capacity to reproduce itself. The management style of Chilean farmers may be inefficient from economic point of view, but it is surely a viable and durable form of business organization in rural Chile, especially in times of difficulty. This will be demonstrated in the next section.

7.3. What is Chilean-style business management good for?

Patriarchal working relations, as described above, may be encountered across the globe, as something approximating paternalism appears in many types of organization (Genovese, 1972; Bennett and Ishino, 1972). But paternalism in, for instance, Belgium corporations is not comparable to the instituted form of patron-client management that prevails in large sections of the Chilean economy. The influence of paternalism upon Chilean shop floor practices was already acknowledged at the beginning of the twentieth century in the debate on the 'Chilean economic mentality' (Chapter Four). Most of the problems observed on the Chilean shop floor, like the fatalistic working attitude of the *roto* and the conspicuous vanity of the *huaso*, are conceptually related to the patron-client way of life. For instance, in 1912, Francisco Encina already envisaged the problems that would beset Don Nano nearly a hundred years later - the inclination to one-man rule, the lack of formal methodology, and the lack of initiative by his workers.

Initially, these problems were conceived of as national psychological shortcomings, but with the rise of managerial sciences in the 1960s the analysis came to include organizational and cultural aspects as well. Dominated by U.S. scholars, these studies often had a comparative perspective. Chilean management turned out to be a sub-species of a truly Latin-American style of management founded on a shared cultural tradition of paternalism. Synthesizing a dozen of studies across Latin-America, Robert Rehder (1968) concluded that:

> "Management was described as reluctant to delegate authority due to a lack of trust in subordinates and sensitivity to errors which may reflect on it personally... Decision-making systems were characterized as highly centralized... Management control procedures involved high centralization and closeness of personal supervision at all levels... The recruitment, placement and development of personnel in Latin America remains strongly influenced by family, personal acquaintances and political connection" (1968: 24-26).

This discovery of 'traditional' paternalism in 'modern' management stirred up negative

verdicts. Paternalism was blamed for blocking economic growth in the continent. For instance, a brochure by the U.S. department of commerce, printed in 1960, warned American businessmen that:

> "Chile is at a disadvantage in its business development... Even though its political tradition is democratic, its social structure is ... authoritative and paternalistic, which in terms of business administration, represents a high degree of concentration of authority at the top. As for the selection of personnel, undue emphasis is placed on familial factors instead of ability, and as for labor relations, instead of accentuating democratic values, an excessive paternalism is insisted upon" (cited in Pérez, 1968: 120).

The moral of the story was well understood by the Chilean business community: the shop floor had to be 'rationalized.' Hence, scientific management saw the light of day in Chile. Originally articulated by mechanical engineer Frederick Taylor (1856-1915), scientific management seeks to maximize business efficiency by implementing the 'one best way' of organizing production (Tsutsui, 1998; Fruytier, 1994). This optimum is determined by a two-steps scientific methodology that separates conception (management) from execution (labor). First, the labor process is formalized - all the implicit knowledge of the workmen is gathered, classified, and tabulated into standards and procedures. Then the labor process is decoupled from the craftsmanship of the workers - all possible brain work is removed from the shop floor and given to a new layer of professional managers:

> "A craft-based labor process, that was once controlled by the workers themselves, falls into pieces. Then, the managers put the pieces together again to create a process that is under their control. The financial advantage of this strategy is that it becomes possible to hire less well-paid workers" (Pruijt, 1996: 10).

But the political climate in Chile of the 1960s was not exactly conducive to such dehumanizing changes. A strong patrimonial state and powerful labor unions curtailed the aspirations of Chile's business community (Díaz, 1990, Montero, 1997). Indeed, in the early 1970s the grip of Chilean managers over the shop floor only weakened. 'Self-management' experiments widened the control of labor in many nationalized firms (Rodríguez, 1982). But with the rise to power of the military the constituency for 'democratic capitalism' vanished like snow before the sun. After the effective removal of all political obstacles to rationalization a true crusade in the name of Taylorization was undertaken. Labor relations were rationalized at the cost of massive dismissals, breakdown of unions and a fall of real wages. The period between 1973 and 1983 has therefore been recorded as the decade of 'authoritarian rationalization' of the Chilean firm (Katz, 1996; Brunner and Catalán, 1985):

> "Employers were able to break the unions, do away with the model of collective contracts, and dramatically alter the incentive system. The result was not only a fall in wages but also an increase in control over the work force, and above all the increased flexibility in the use of labor... The method was repressive and always accompanied by systematic attempts to curb union power. It was further aided by draconian labor

legislation. Hence the dictatorial state was associated with widespread authoritarian practices within the firm" (Martínez and Díaz, 1996: 71).

After the economic crisis of 1981-83, the 'weight of the night' was lifted from the shop floor. Taylorism had been thoroughly implemented and flexible contracting had become the dominant form of employment, so the time had come for expansion and innovation. Sustained by unprecedented economic growth, Chile's business community dashed forward in areas like technological innovation, quality assurance, marketing and financial management (Castillo and Álvarez, 1998). Institutional changes were carried through as well. New strategies of outsourcing and subcontracting radically changed the organization of Chilean industry and trade, giving rise to integrated supply chains that linked small suppliers to large export firms. But the shop floor itself remained in the dark age of Taylorism. The combination of scientific management with patrimonial working relations remained a most competitive business model in the period between 1983 and 1989:

"Modern technologies were combined with Taylorist working practices dating from the beginning of the century... This strange combination of the new and the old was the basis of what has been called the neo-Taylorist road to modernization. The social consequences ... have been extremely unsatisfactory... There is a great mass of workers with highly precarious employment conditions. [They] do not have fixed contracts nor the ability to join a union, much less the option of collective negotiation. They carry out monotonous tasks, with no possibility of participating in the management of the firm" (Martínez and Díaz, 1996: 72).

In the 1990s the continued internationalization of the Chilean economy deepened the process of entrepreneurial modernization, particularly in areas like strategic planning, information technology, commercial alliances, customer relations and quality assurance. Due to the appointment of professional managers with degrees obtained in foreign universities, the shop floor underwent sweeping changes as well. Much effort went into the reduction of bureaucracy, the decentralization of decision-making, the automation of processes and the introduction of team work (Castillo and Álvarez, 1998). Yet despite all advances in the direction of labor processes, human resource management is still conceived of as the bottle neck of the Chilean firm (Martínez and Díaz, 1996; Castillo and Álvarez, 1998; Gómez, 2002; Hojman and Perez, 2005).

In Chile, human resource management means little more than the administration of personnel and salaries (Montero, 1997). It is rare to find a Chilean firm with a strategic policy on human resources as a competitive asset. Labor-related databases are generally poor, and the salaries of human resource managers are systematically inferior to the remuneration for other managing positions in companies (Koljatic and Rosene, 1993). Though on-the-job training costs are fiscally deductible, few companies invest in their personnel (INN, 2000). A large majority of entrepreneurs remains devoted to the Taylorite business strategy, making flexible use of cheap labor in production processes

stripped of conceptual responsibilities. Decision-making remains strongly hierarchical, and bottom-up feedback is generally perceived of as threatening. The shop floor is organized through the principle of top-down control rather than proper responsibility. Work processes are fragmented by multiple handoffs so as to allow for repeated checks between employees. Selling a product is, for instance, categorically separated from receiving payment for it.

The use of Taylorism in Chile seems more widespread than in many other countries, where scientific management started to become unfashionable in the early 1980s. At that time, business leaders and management gurus heralded the rise of a 'post-Fordist' regime of capital accumulation in a context of harsh global competition, rapid technological innovation, and permanently volatile markets (e.g. Piore and Sabel, 1984). This regime would convert knowledge and human resources into key competitive assets, confining the use of Taylorism to automated bulk production processes (Morgan, 1986; Goodman and Watts, 1994). Michael Best's bestseller *The new competition* (1993) is perhaps the widest known hymn of praise to post-Taylorism:

"The Old Competition is about Big Business, which means managerial hierarchy [and] scientific management (p. 251)... The New Competition is [about] the entrepreneurial firm, an enterprise that is organized from top to bottom to pursue continuous improvement... [This] demands organizational flexibility which in turn requires... an integration of thinking and doing in working activities (p. 2-3)."

The attributes of the assembly line which once made it the archetype of efficiency ¬- standardized tasks, deskilled labor and strict supervision - were now seen as its greatest liabilities (Tsutsui, 1998). The new managerial paradigm was 'flexible specialization,' a system based on tailored production, just-in-time delivery and continuous improvement. The benchmark for the new model was Japanese 'lean production,' which accomplished high productivity, superior quality, and keen responsiveness to change. The Japanese secret was a 'humanized' vision of labor - skilled employees working in teams (the notorious 'quality circles') and participating actively in shop floor decision-making (Ouchi, 1981; Nanoka and Takeuchi, 1995).

Why, then, do modern Chilean firms continue to apply Taylorism? Part of the answer lies in the structure of the Chilean economy. The country's most dynamic business sectors are export industries such as copper mining, fisheries and agro-food processing. With the exception of the wine industry, these sectors are all based on the exploitation of low wages and non-renewable natural resources rather than the creation of added value, superior quality, or unique selling points. On the domestic market, quality and service are even less important, due to the limited purchasing power of the population. Hence, with the economy somewhere in an 'early phase' of industrialization, Chile's business community, including its most dynamic segments, remains attached to a low-cost, short-run business strategy (Peres, 1998). There is no need for superior quality or continuous improvement, so why waste money on human resource management? Taylorism does

well enough, as it allows for the flexible use of abundantly available cheap labor in deskilled production processes.

But economic factors alone do not suffice to explain the persistent popularity of scientific management in Chile. If it were for reasons of economic efficiency only, then the use of Taylorism would be restricted to those production sectors where volume is more important than quality and service. But in Chile, Taylorism may be encountered across the entire economy, even in the retail trade sector, where customer satisfaction should be priority number one. Whether in the shop-around-the-corner or in a large warehouse, if one goes to buy a toothbrush or a piece of fabric in Chile, one usually deals with three different persons - first an attractive girl who sells the product, then a wrinkled old lady at the cash-desk, and finally a young fellow handing over the product. Though the girl may be seen as a form of client friendliness, the system itself is highly frustrating for the customer - she/he must line up three times, and handle three tickets of three different colors. For the company and its workers the system is burdensome and inefficient as well. Surely the ample availability of personnel creates an easy-going working climate and rich interaction on the shop floor. But the rationale behind the system is distrust of the staff. By introducing two handoffs in the sale process, permanent control is held over the staff, the cash-desk, and the inventory. Taylor would most probably turn in his grave if he knew about this use of scientific management. His management system was designed for automating and optimizing mass production processes, but Chilean shopkeepers apply it to face-to-face customer interaction, thereby obtaining the opposite results - inefficiency and bureaucratization. Hence, in retail trade - one of Chile's largest business sectors - the use of Taylorism seems inspired by a cultural urge for hierarchical control rather than an entrepreneurial quest for efficiency. This is where economic explanations cease to be meaningful, and where the influence of paternalism upon Chilean shop floor practices becomes clear.

Taylorism is popular in Chile because it shares the same basic approach to social organization as patron-client institutionality. Both create a high grid-low group environment of centralized control over isolated subordinates. Group solidarity is low, because the labor process is cut into pieces, and most staff members are easily substitutable. Grid is high, because the management prescribes how tasks must be performed and at what pace. Permanent control is exercised upon the workers to make sure that planned targets are met. All handoffs are documented in triplicate - one copy for both parts and one for the superior - hence respectable bureaucracy is the result. Performing monotonous tasks with minimum responsibility the workers tend to become alienated from their job and develop fatalistic working attitudes, such as passivity, opportunism, and a lack of disposition to take responsibility (cf. Hood, 1998). These attitudes reinforce the employer's conviction that strict control and centralized authority are indispensable for successful performance. Hence, Taylorism entails a vicious circle of distrust, similar to the one in patron-client institutionality. Employers perceive passivity, pilferage and default on the shop floor, whereas workers experience bad

working conditions and authoritarian working relations. It is therefore not surprising that 54 percent of the Chilean labor force evaluates labor relations negatively (UNDP, 2002). Nor is it strange that laziness and irresponsibility were mentioned as the main shortcoming of the Chilean (with a score of 29 percent; *ibid.*).

The problem of distrust on the shop floor is solved in paternalistic ways. Loyalty is created through the instituted availability of particularistic support in times of need - workers usually have a 'credit account' at the company they work for. Solidarity is bred through familial forms of social interaction - a regular drink with colleagues is part of the job, as in Japan. Yet despite these counterbalances, shop floor distrust is so strong that it penetrates to higher levels of employer-employee relations. Institutional dialogue between labor and capital is virtually non-existent in Chile. Labor relations are perceived in terms of confrontation rather than cooperation (Castillo and Álvarez, 1998). Employers categorically oppose collective bargaining, while unions are better at protests than making proposals (Gómez, 2002). As a result, labor policies are usually defined by the management alone - only 14 percent of the Chilean labor force enjoys collective negotiation (Montero, 1997).

The point that Chilean labor relations remain based on patron-client institutionality is well endorsed by Chilean sociologist Dario Rodríguez. He argues that companies in his country function differently when compared to Western enterprises because they are rooted in a culture of paternalism (Table 7.2).

Table 7.2: Ideal-type comparison of corporate versus paternalistic management

	Corporate management	**Paternalistic management**
Responsibility	There are functionally defined units and functions, each with limited responsibility.	Responsibility is centralized into the hands of the boss. Workers perform tasks assigned day by day.
Authority	Authority is functionally defined. Informal relations tend to be egalitarian.	Authority goes beyond instrumental necessity; it includes a notion of superiority.
Operational control	Based on formal structures, standards and procedures.	Based on dyadic contact between the patron and his workers.
Boss-employee relation	Based on a formal contract. Personal and business affairs are separated.	Based on reciprocity, trust and loyalty. Personal affairs are fully integrated.
Communication	Occurs as defined by the formal structures and procedures.	Is vertical. There is no direct formal communication between workers.
Recruitment	Based on evidence of competence.	Based on acquaintance.

Source: Rodríguez, 1991, 1995

In contrast to his colleagues in the 1960s, Rodríguez sees no problem in the persistence of patron-client relations. He argues that the performance of Chilean firms is not limited by inefficiencies of the patron-client model, but rather by the denial of paternalism as a proper Chilean management style. He argues the problem is the uncritical application of Western management models:

> "The Western model was exported *urbi et orbi*... The poor results were attributed to many things: the race, underdevelopment, a lack of education, the fact of having been colonized by the Spaniards rather than the Anglo-Saxons, etc. But the model itself was never questioned as it had proven efficient in the developed world" (1995: 160).

Rodríguez pleads for a proper national management model, based on the Chilean way of being - which he defines in familiar terms, e.g. fatalistic, personalistic, and submissive (Chapter Four). Japanese companies conquered the world with paternalistic management, so what keeps Chile from doing the same? The challenge is to maintain paternalism, while correcting its inefficiencies:

> "Latin-American paternalism, disregarding its component of dependency, constitutes a system of mutual loyalties similar to that of the Japanese company. [But it] lacks a vital component. Whereas the mutual loyalties in Japanese firms are oriented toward productivity, in our country productivity is relatively new... The challenge is to generate relations centered around productivity but that are particularistic at the same time" (1991: 73-4).

For Chilean paternalism to become internationally competitive, so argues Rodríguez, it should be formalized and democratized. He gives five suggestions: (a) to transfer more responsibility to the workers, (b) to increase the scope for participation in decision-making, (c) to formalize the managerial process, (d) to base authority on capacity rather than status, and (e) to offer better working conditions.

In a recent work (1999), Rodríguez claims Chilean labor relations are moving in this direction. Labor is emancipating and management is becoming more professional, as Chile advances on the road of economic growth, improved education, and continued internationalization. In a survey of Chile's thirty largest firms, Rodríguez finds evidence of the shift towards his proposal of formalized, participatory paternalism. Seventy-seven percent of the interviewed workers declared not avoiding tasks that might put their job at stake, while 79 percent called for clearer procedures and task definitions. Seventy percent expected the company to care about their families, while 61 percent saw no problem in bringing personal affairs into their relation to superiors (Larraín, 1996). Hence, while continuing to ask for patriarchal solidarity, Chilean workers are no longer insecure and dependent, but increasingly ambitious and pro-active. These shifts on the shop floor are contradicted, however, by the results of a 2001 survey to 1,300 visitors of a shopping mall in Santiago (Rodríguez, 2001). Seventy-five percent of the respondents - who are assumed to be typical employees of Chilean firms - agreed that the Chilean worker does not run risks, while 57 percent agreed that she/he is lazy, and 59 percent believed that she/he likes to be told what to do. Three-quarters claimed that access to employment depended on friendship or family contacts, and only 5 percent believed that employees were treated as a valuable resource.

Other scholars, endorsing these prudent but contradictory shifts on the shop floor, sketch a continuum of management styles varying from 'classic paternalism' to 'transnational management' (Montero, 1997; Peres, 1998). 'Classic paternalism' is the intuitive, dyadic management model by which small entrepreneurs operate in domestic markets, like Don Nano's farm, or the shop-around-the-corner. It also persists as authoritarian management in large firms, such as Antofagasta, a large copper producer that does not publish policies regarding employee rights or workplace safety (The Times, 6-11-2004). 'Transnational management' prevails in export sectors where quality and innovation are key. It comes close to corporate management, with skilled staff, formalized procedures, continuous business processes, and decentralized forms of decision-making. But it is not free of paternalism - it may accommodate patriarchal elements like strong authority relations, a family-like corporate identity, and excessive Taylorization of working processes. *Empresas Iansa* is a good example of how the culture of paternalism persists among Chile's vanguard companies.

This is why it is helpful to approach the particularities of Chilean-style business management via patron-client theory. The persistent popularity of Taylorism is not only related to the structure of the Chilean economy, but also to its similarities with wider frameworks of patron-client organization in Chilean society. Hierarchy and dependency, distrust and personalism, as well as other key notions of management practice in Chile, are part and parcel of a national patron-client institutionality. Also the perceived shortcomings of Chilean-style management, such as the fatalist attitude among employees, are classic elements of the model. The degree to which such problems play a role depends, of course, upon each particular case. But it can be safely stated that the culture of paternalism continues to shape shop floor practices in Chile. It becomes an option, therefore, to ask whether it is better to work with rather than against the grain of the dominant culture. Some answers are to be found in the next section, which introduces an agribusiness firm that sought explicitly to overcome the inefficiencies of cultural heritage.

7.4. Participatory management in an agro-industrial firm

Surfrut is an exporter of processed fruits and vegetables, located in the Valley of Curicó, 7th region. Surfrut dehydrates and cans nineteen fruit species procured from hundred-fifty contract farmers and the company's own orchards. With annual sales of twelve million dollars and a labor force of one-hundred-and-fifty persons, Surfrut is Chile's leading exporter of canned cherries, dry apple flakes and bell pepper granola (Table 7.3). The total

assortment varies from dried kiwi slices to cross-cut celery stalks, and from baby beans in olive oil to peeled seedless grapes. Mainly destined for the USA, Europe and Japan, the produce is sold to food manufacturers in high-value consumer markets, such as cereals and snacks (fruit granola bars), dairy products (fruit yogurts), ready-to-eat meals (instant soups) and catering (fruit salads).

Table 7.3: Profile of Surfrut (2000)

Annual sales	US$ 12 million
Main products	Dehydrated apple (35% of total sales), bell pepper granolas (30%), canned cherries (20%) and dehydrated tomato (7%)
Main markets	Food manufacturers in USA, Japan and Germany
Number of employees	150 (all permanent)
Agricultural supply	150 smallholder farmers and proper orchards
Proprietary structure	Family-owned

Source: fieldwork

One visit to the plant suffices to note that Surfrut is a remarkable company by Chilean standards. When the management team meets, the agenda starts with group exercises and meditation. All workers can reproduce the company's mission statement and many of them are involved in seasonal planning and evaluation, just as they share in the profits generated. These practices reflect Surfrut's philosophy of the enterprise as a creator of social welfare. Surfrut's mission is to generate satisfaction - not only of the customer, but of all persons involved in making the product. Surfrut holds that work should generate not only income but also personal and social development. To make this happen, Surfrut actively seeks a working climate of trust, commitment and participation.

Surfrut's remarkable business model cannot be properly understood without first introducing the family that runs and owns the place. This family, descended from traditional landowners, possess a dozen farms and agro-industries in the Valley of Curicó. The companies come in identical twins, for the family, a true local dynasty, is divided into two branches living on bad terms with each other. Part of the conflict is political. One branch has conservative tendencies, whereas the branch to which Surfrut belongs is influential in the PPD, a progressive center-left party that is part of the current government and historically rooted in free-masonry. The general manager of Surfrut, head of the company for the past two decades, is the eldest son in this branch of the family. His political awareness was sharp at young age. An agricultural engineer, he started his professional career as co-author of *Plan Frutícola*, the rural development program under Frei and Allende. Under military rule, he founded *Agraria*, a non-governmental organization that became one of the leading development agencies on the Chilean countryside. In the late 1980s, probably disappointed by the ineffectiveness of public development projects, he decided to devote himself to the family patrimony. In Surfrut he saw an opportunity to put his ideas on social capitalism into practice.

So he made Surfrut into a striking phenomenon. The average Chilean agribusiness follows a low-cost competitive strategy, minimizing fixed costs through Taylorite mass production, temporary employment of cheap labor, and outsourcing of knowledge-intensive services. The trick is to keep costs as low as possible, while seeking quality through selection and grading. Surfrut focuses instead on total quality, that is, on being on top of the product at any point in time. Where its competitors sell products, Surfrut sells itself as a long-term business partner. Its mission statement proclaims:

> "We are dedicated to providing processed fruits and vegetables in a stable way to our customers throughout the world... We want our standards to satisfy our clients beyond their explicit requirements. The trust they give us, is our main indicator of success."

To achieve this, Surfrut took a series of unorthodox measures. It decided to provide its workforce with stable employment, permanent in-house training and a say in managerial decision-making. This strategy may be well-tried by knowledge-based industries, but not in firms dedicated to agricultural processing. It implies high expenses, as most of the staff are modest rural inhabitants who, in the best case, have a secondary school diploma. It also entails high financial risks, as the company, in order to generate year-round employment, is forced to maintain an idle labor force at some seasons and invest in some non-profitable product lines. Yet Surfrut reckons that the benefits outweigh costs. By developing its human resources as a competitive asset, the company competes on quality rather than price.

The crowning result of this occurred in May 1998, when Surfrut became the first Chilean agribusiness to be certificated under ISO-9002, the official international system for quality management. This assures that a firm's business processes are under full managerial control and oriented towards customer satisfaction. It is a methodology by which a company constructs and maintains a quality management system tailored to its own characteristics and needs. The business processes is structured by defining goals, standards and procedures for each operation, and by subjecting them to a system of permanent documentation and auditing. Surfrut's quality management system entails one quality manual (defining overall policies), twelve procedural chapters (for each core business process), and two hundred and twenty job instructions (for each operation). Internal auditing is done several times a week, by different groups of workers, and external auditing once a year by an accredited agency from Germany.

Though ISO-certification is a clear competitive advantage in export markets, only six Chilean agribusiness firms have obtained it (CORFO, 2000). This is because the implementation of ISO-9002 requires huge investments, not only in information technology, but especially in the training of personnel. It requires workers to expand their horizon from their own job to the company as a whole, including its ultimate goal - customer satisfaction. This is a long-term process of cultural change, which Surfrut started in 1992 with a course on total quality management offered to the executive team.

Based on a SWOT-analysis the management team redefined the company's mission, vision and core values, which until today continue to guide the company's efforts to generate satisfaction throughout the entire production chain.

The second step was in 1993, when the company started a program for continuous improvement of its business processes. Divided into fifteen groups, the workforce participates in a monthly 'market' of improvement proposals. Each group is expected to accept one assignment and resolve it before the next market round one month later. In this way, fifteen problems are being solved every month, at least in theory. The trade in assignments between the groups is registered on a large board permanently visible in the canteen. The board works as follows (Figure 7.2). The fifteen groups make up both the vertical and horizontal axis of a matrix. The cell where two groups intersect is their market place. For example, in A, the Contract Farming Group asks Reception to improve the readability of the weight forms for the agrarian suppliers. In B, Marketing asks Packaging to make a plan to reduce the cost of packaging. The cells where a group intersects with itself is where it may offer jobs to other groups. For example, in C, Informatics offers to Canning that it will improve the statistical control of the canning process, or it offers to the Transport Group the possibility to calculate the idle use of the trucks. Accepted assignments are written in red, the rest in black. Only when an assignment has been implemented is it removed from the board.

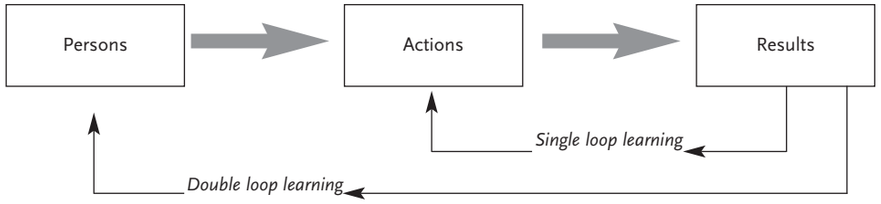
Figure 7.2: Surfrut's market place for continuous improvement

Addressed group → / Demanding group ↓	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
1. Stock inputs															
2. Stock end-products															
3. Reception															
4. Transport															
5. Dehydrating															
6. Canning															
7. Packaging															
8. Maintenance															
9. Quality control															
10. Purchase prim.mat.															
11. Contract farming			A												
12. Personnel															
13. Administration															
14. Informatics														C	
15. Marketing							B								

Source: Department of Human Resources, Surfrut, 2000

In the first year of the continuous improvement program participation by work floor personnel was unsatisfactory. Leaders dominated the groups due to their status and superior technical knowledge. To increase the workers' self-confidence and expertise Surfrut started a rigorous in-house training program in 1994. During the winter months the workforce is trained three days a week in (a) personal development, communication and team work, (b) Surfrut's mission, vision and values, and (c) quality, hygiene, food safety and work security. The training workshops are participative by methodology, and double loop learning is an explicit goal of the program (Figure 7.3).

Figure 7.3: The underlying principle of human resource management at Surfrut



Source: Department of human resources, Surfrut

The next step, in 1995, was the implementation of HACCP (Hazard Analysis and Critical Control Points). HACCP is a system to control food safety based on an analysis of the risks of physical, chemical or microbiological contamination throughout the production process. Each risk parameter is measured and monitored at a so-called critical control point. Later this food safety system was expanded with measures to guarantee full traceability of all ingredients. The company thus qualified for the official U.S. food safety certification.

In 1996 Surfrut further increased participation by workers in company affairs. Inspired by the success of the continuous improvement program, the management wanted more involvement of work floor personnel in the management of the company. Selected on commitment and responsibility, eighty staff members were invited to join in seasonal planning and evaluation. Since then, this 'group-of-eighty' has been defining each season's working program, expected results and required investments. With full access to all data, including profitability figures, the group gathers monthly to monitor the accomplishment of the program and to propose corrective actions. If the company's results are better than expected at the beginning of the season then the surplus profit is divided among all eighty participants.

Hand in hand with these internal changes, the company also took action to increase trust, transparency and commitment in the supply chain. Surfrut's vegetable suppliers are bound to the company through fully-fledged production contracts. But the fruits that Surfrut processes, most notably apple and cherries, are open market crops characterized

by volatile prices and one-season supply relations. To get more grip on quality, Surfrut wanted to bind fruit suppliers while deepening its already existing contract relations among vegetable growers. Surfrut decided to try and make a difference to other agro-industries by investing in the transparency of its treatment and the scope of its services. It started in 1996 with a training program for suppliers on diverse issues, such as quality standards, contract conditions, and customer needs. To finance the program, Surfrut drew upon a fund provided by CORFO for collective technical innovation, as there were no state programs on supply chains at that time. Surfrut's pilot experience in agro-chain management - as well as the manager's political influence - helped the creation, two years later, of CORFO's supplier development program (PDP).

The first company to make use of the PDP funds, Surfrut presented a project to convert its suppliers into quality assurers and long-term business partners. The project entailed an investment in the managerial skills of the growers, through the introduction of records, planning instruments, and cost price calculation. Technological innovation was enhanced through training workshops, field schools and facilitated applications for state subsidies. Chain communication was tackled through joint analyses of contracts and related documents, by inviting the suppliers to the plant, and by organizing mutual evaluations at the end of the season. The most remarkable part of the program was the organization of zonal farmer groups, through which growers were encouraged not only to exchange information, experiences and best practices, but also to participate in input distribution and harvest logistics.

The different policies adopted by Surfrut are in themselves hardly revolutionary, but the combination of them all, in the context of a Chilean agribusiness company, makes a striking phenomenon. But what are the results? What good did Surfrut's business model bring? And what are its critical limitations?

The company's performance has surely improved in recent years. This is remarkable, for the late 1990s were a true nightmare in the Chilean agribusiness community, due to the entry of China as a supplier on the world food market. Where many competitors were forced to eat into their capital or to shut their gates altogether, Surfrut managed to raise its profitability slightly (Table 7.4). The underlying reason was increased productivity. The growth in processed volume per day, as expressed in Table 7.4, was achieved without major investments in new technologies or by expansion of managerial staff. Hence, by investing in the quality of its human resources, Surfrut has been able to increase its managerial capacity and competitiveness.

Table 7.4: Indicators of Surfrut's competitiveness

	1995	1999
Profit in relation to capital	20.7%	21.3%
Tons of processed vegetables per year	154	503
Tons of processed apple per year	603	809
Kilos of dehydrated apple per day	37	53
Kilos of dehydrated bell pepper per day	18	26

Source: databases Surfrut

The positive effects of Surfrut's human resource policies are to be seen in Table 7.5. The figures show that the work force is more loyal to the company and more involved in decision-making. Work teams gather weekly to discuss operational matters and contribute to the continuous improvement of the company. Every year 23 improvement proposals are implemented. What the figures do not cover, however, is that the workers are well trained, conscious of customer needs, and aware of how individual performance affects performance by others. This encourages high quality, quick responsiveness, and permanent innovation. The symbol of this philosophy - the group of eighty - is also important for operational performance, most notably in the canning of cherries. Destined for the Japanese market, canned cherries are Surfrut's most profitable line of production. They are delicate, in need of immediate processing, and available for one month only. After Surfrut decided to share seasonal planning among eighty staff members, the company was able to transform cherry canning into a 24-hour a day operation, where before there were two shifts of nine hours only. The efficiency of the process, in terms of rejects, has improved as well, according to the production manager. Hence, by investing in participatory decision-making, Surfrut managed to expand and improve its most profitable product line.

Table 7.5: Indicators of Surfrut's labor environment

	1995	1999
New contracts (< 1 year)	47%	25%
Contracts between 1 and 5 years	27%	31%
Old contracts (> 5 years)	26%	44%
Number of work teams	2	19
Number of meetings per month	5	45
Number of problems solved through continuous improvement per year	6	23

Source: databases Surfrut

The external relations of the company have improved as well. By achieving ISO-9002, HACCP and food safety certification, Surfrut increased its attractiveness to clients. The proportion of long-term business relations increased from 42 to 69 percent (Table 7.6). Most notable in this respect is a newly created joint venture with a distributor of

dehydrated products in the U.S, comprising an office for sales promotion, stocking, and customer attendance. Surfrut's attractiveness to farmers also increased. The supply relations became more stable - up from 40 to 60 percent - and more efficient in terms of quality. Farmers I interviewed valued Surfrut's client friendliness, the trust placed in their craftsmanship, and openness over prices and margins. As to business conditions, they saw little difference compared to other agro-industries. The contract offered by Surfrut is indeed similar to that of its competitors. Prices are uniform across the market, and risk distribution is as unequal as anywhere. In one instance a new bell pepper variety, introduced on the plots of three farmers, yielded disastrously. Despite its full responsibility for this technical innovation, the company passed the largest part of the bill to the growers involved. But Surfrut does offer more room than average for growers to develop their enterprise. When a grower requested permission to produce his own seedlings instead of planting those provided by Surfrut's nursery, he was given green light and not jeered at, as would have occurred in some other companies. The trust granted by the company paid back, as the grower produced excellent seedlings at a low cost price. He now produces not only for himself but also for other farmers contracted by Surfrut.

Table 7.6: Indicators of Surfrut's chain relations

	1995	1999
Stable suppliers	40%	60%
Quality "A" suppliers	15%	25%
Discard of primary material	25%	10%
Number of clients	45	50
Average sales per client per year	US$ 168,000	US$ 200,000
Long-term clients (> 5 year)	42%	69%

Source: databases Surfrut

Hence, in a period of falling prices and tightening markets, Surfrut has managed to increase its business performance. By choosing a radically different business model - one that invests in trust and participation rather than control and command - Surfrut has managed to increase its competitive advantage over other agro-industries. Under ISO-9002, the company formalized its units, functions, and procedures, thereby endowing each staff member with a certain degree of responsibility. Through the group-of-eighty and the continuous improvement program the company opened up managerial decision-making to wide participation by work floor personnel. Surfrut thus opted for the way forward envisaged by Rodríguez (1991, 1999), who argued that Chilean companies would best increase their competitiveness by formalizing and democratizing the traditional patron-client model of business management.

This does not mean Surfrut eradicated paternalism altogether. Surfrut rather created a hybrid business model combining the best features of paternalistic and corporate

management. Surfrut's corporate features are its customer orientation and procedural formality, underpinned by ISO-9002, whereas its paternalism lies in its ambition to generate social welfare as well as profit. Surfrut's human resource policies explicitly aim at taking staff members by the hand and developing them into better persons through double loop learning. Personal matters like self-confidence, emotional control and interpersonal contact are part-and-parcel of the in-house training program. So is the workers' family situation. As workers undergo a process of personal development, tensions may rise in their homes, especially in the case of female employees. To help workers deal with such situations is an explicit part of the function of Surfrut's human resource manager.

Paternalism is further present in the role of Jaime, the general manager. His status is way beyond all other members of the executive team, his insight untouchable, and his paternal role crucial for the functioning of the company. Despite the decentralized decision-making structures, authority and initiative remain strongly concentrated in Jaime's hands. And despite his pressure on others to take responsibility, in the end he is unable to let things take their course. Once in a training workshop, the management team was ordered to take a complex decision without any interference by Jaime. As nobody was able to cut the knot, Jaime left the room furiously. But instead of waiting for the group to come to him and present a solution, he returned to the room as he did not want them to suffer. The question bothering everyone at Surfrut is what will happen to Surfrut when Jaime is gone. Can the company's business model evolve into a stable participatory management without Jaime constantly pushing it?

Considering the durability of patron-client organization in Chile, it is most likely that the company will fall back on traditional hierarchy, unless Jaime's position is taken over by a charismatic person with similar ideas of social enterprise. As 'manager of the management' Jaime takes care of the compatibility between 'structure' and 'attitude' at Surfrut. His command is decisive in making participatory management a viable way to steer Surfrut's employees and business processes. By virtue of Jaime's leadership style, Surfrut has managed to implement a unique business model, which generates top business performance by combining the best of patriarchal and corporate management. Yet Surfrut failed in overcoming one critical limitation of patron-client management - the dependency upon patriarchal leadership. Surfrut's participatory management model is a democracy designed, implemented and maintained by an enlightened leader. This fundamental contradiction is Surfrut's Achilles Heel. The company's business model is viable as long as the patron is Jaime or a similar personality. But a true participatory system without a patron in charge has never been in sight.

This critical limitation to Surfrut's quest for participatory paternalism is the problem of the Baron of Münchhausen (cf. Fruytier, 1994). This mythical figure had everything in life, except for one thing - he desperately wanted to fly like a bird. After many crashes and disappointments, his ultimate attempt was to try and lift himself by pulling his hair with his hands. As he pulled and pulled but failed to take off from the ground, his sadness

took on mythical proportions. The touching story of the Baron of Münchhausen represents the impossibility of obtaining objectives that contradict the defining properties of one's own nature. This goes not only for individuals but also for social organizations. Organizational change is limited by the organization's own structure. Organizations can change and evolve only self-generated changes in identity. This is the so-called 'autopoietic' or self-referential character of social organizations (Maturana and Varela, 1987; Luhmann, 1984). All possible forms of social organization which do not fit the institutional thought style of an organization are unviable for that organization. In the words of Mary Douglas "Culture itself is constrained. It cannot make any number of combinations or permutations" (1992: 136).

Paternalism defines itself by one-man leadership, hence, participatory paternalism, in which bottom-up initiative substitutes patriarchal command, is in the end an impossibility. Patron-client structures may improve through organized participation, as Surfrut demonstrates, but this democratization must be induced and maintained from the top. In other words, paternalistic management is pliable to new hybrid forms of business organization, but it remains a structural feature that will continue to shape Chilean shop floor practices. Perhaps the future for 'Chilean institutionality' is that patrons will begin to view their activities from a participatory perspective and thus become better, more effective patrons.

Epilogue The Chilean miracle: durability within change

1. The context of the study

People say we are living in the age of the 'network society.' "Networks constitute the new social morphology of our societies, and the diffusion of network logic substantially modifies the operation and outcomes in processes of production, experience, power, and culture. While the networking form of social organization has existed in other times and spaces, the new information technology paradigm provides the material base for its pervasive expansion throughout the entire social structure" (Castells, 1996: 469).

The notion of the network society comprises two interrelated beliefs. At macro-level it is claimed our world is (becoming) a 'global village' interconnected through world-wide networks contracting space and time (Giddens, 1990). Hallmarks of this process of globalization are the increasing interchange of persons, goods and ideas, international standardization, cultural hybridization, and the emergence of a transnational free-trade regime with its own provisions of law (De Ruiter, 2000). In this world of global flows the search for cultural identity becomes critical, as standing certainties lose ground and livelihoods become interconnected on a global scale. On the other hand, at micro-level it is claimed that a network - defined as the interconnection of separate social fields - is the most appropriate way organizationally to operate in these new conditions. In a world of global free markets, constant shifts, and rapid innovation, knowledge and cooperation become prime competitive assets. In consequence, hierarchical structures of industrial mass production are being replaced by flexible, horizontal networks in which different stakeholders cooperate to compete (Best, 1993; Morgan, 1986).

The agro-food sector is not exempted from these developments. Recent research into the organization of international agro-food production emphasizes a realignment from generic spot markets towards on-demand supply chains organized by transnational food manufacturers and retail companies (Vellema and Boselie, 2003; Trienekens and Omta, 2002). These networks emerge because they are better suited organizationally to tune production activities to the requirements of consumer marketing. Prime evidence of the 'new global food system' is seen in the rapid dispersion of contract farming (Goodman and Watts, 1994). Downstream food companies make use of contractual arrangements to impose consumer demands upon agrarian producers in the guise of quality grades, food safety regulations, and prescription of agricultural practices (Dobson et al., 2003; Reardon et al., 2001). The expansion of contract farming is perceived as a 'critical transformation' of rural economies, especially in developing countries, and as the 'new configuration' of smallholder agriculture within international food markets (Little and

Watts, 1994).

Hence when I set out to study the Chilean tomato industry as a textbook example of Chile's neo-liberal export miracle, I expected to witness network forms of organization disrupt social relationships, cultural identities and traditional ways of life on the Chilean countryside. I had anticipated the tomato chain to 'substantially modify the operation and outcomes in processes of production, experience, power, and culture.' Because on paper the Chilean tomato chain seemed to accommodate all features of the 'new global food system' - it connects smallholder farmers to export markets, is regulated through detailed contracts, and is designed to satisfy the requirements of transnational food manufacturers like Heinz. How surprised I was to find out that the tomato industry and its chain partners were not involved in a 'new configuration,' but that they related to one another as a landlord to tenant farmers centuries ago. Market leader Tomatio steered its supply chain as if it were a *hacienda*, applying centuries-old principles of patron-client management - i.e. with centralized control, all-embracing services, dyadic command, personalized rules, and little room for grassroots initiative. Hence, where globalization scholars claim to see a radical transformation of agro-food chains the world over, I ran into institutional durability - i.e. an ancient organizational form persisting in the affairs of 21st century export agribusiness.

What puzzled me most was that the patrimonial model of supply chain management was maintained in spite of generating serious inefficiencies. The strong concentration of decision-making power in the hands of the industry blurs responsibility over the crop, paralyzes entrepreneurial initiative, and blocks bottom-up technological innovation. The dyadic renegotiation of the contract creates a context of institutional distrust, since it undermines the legitimacy of norms and standards, and nurtures the feeling that reward is unrelated to performance. Due to these problems, the paternalistic chain model runs into contradictions at increased levels of competitiveness. Mechanization of the crop, for instance, requires entrepreneurial skills and attitudes that growers do not develop under a scheme of patrimonial chain leadership, where they just follow orders given by the industry. This empirical discovery led to the problem statement of the study - why do knowledgeable entrepreneurs maintain patron-client relations in spite of being aware of its inefficiencies? This problem statement set the mission of the study - to understand the durability and the potential for change of patron-client organization in Chile.

2. The proposition of the study

As I got to know more of Chile, I found patron-client relations persisting in many areas of the economy, polity, and civil society. While conducting fieldwork it appeared to me that patrimonial chain management was to a high degree existent in many areas of the Chilean agribusiness. As a consultant for peasant business cooperatives, I arrived at the conclusion that Chile's peasant movement was a top-down created web of patronage

linking nearly 100,000 rural families to state support. Working with private firms, I discovered that shop floor relations tended to be strongly paternalistic, and that the widespread use of Taylorist management procedures was often not based on a drive for scientific efficiency, but on an urge by managers to feel in control. Cooperating with a local university, I saw patriarchal relations between professors and students, and curricula teaching the acceptance of truth rather than critical analysis. In the 2000 presidential elections, I saw the contesting candidates visiting the town where I lived, paying overdue electricity bills and promising to build hospitals and high-speed train connections in exchange for electoral support. In personal life, I learned to make use of personal acquaintance to arrange formal documents like a drivers' license, not to trust legal or institutional arrangements, and to revert to dyadic exchange relationships in order to solve day-to-day livelihood problems.

From these real-life experiences was born the central proposition of the study - that patron-client organization is 'Chilean institutionality.' That is to say, Chilean society is permeated by an institutional culture of hierarchical relations, personalized livelihood strategies, institutional distrust, and a fatalistic perception of the world. Though Chile is a modern free-market democracy, the culture of patronage continues to guide the daily behavior of many Chileans in areas such as the shop floor, the free market, the polling-booth, the school, and civil society. Organizations in the country - public or private, large or small - tend to feature strongly centralized decision-making, personalized systems of rules, dyadic lines of command, and little room for bottom-up feedback or initiative. Personal acquaintance - *pituto* - remains a key strategy for obtaining services from the state and in the market, and many everyday problems are not solved through formal institutions but in dyadic exchange relationships.

This Chilean 'way of doing' is rooted in long history of patrimonial governance. The Spanish colonizers established the *hacienda* as a building block of Chile's first nation-wide regime. The *hacienda* was a 'total institution' - an economic system, a political-administrative unit, a military organization, a religious order, and a social community. Outside the *hacienda* there was warfare, banditry and lawlessness; inside there was law, order and protection - hence the emerging 'solidarity' between the people and the landlord. Supported by a patriarchal worldview of religious-monarchical absolutism, patrimonialism rooted as a Chilean archetype for social coordination which would shape the country's later development into a modern free-market democracy. Nowhere was it stronger than in the countryside, well into the 1960s the unchallenged domain of the *hacienda*. From this foundation, patrimonialism was woven into national institutions as landed interests dominated the political economy. The Autocratic Republic (1818-1870) and the Parliamentary Republic (1870-1920) featured patriarchal presidents, factional parliaments, a strong central state, and a dependent civil society. The economy manifested oppression of labor, extreme concentration of wealth, and privileged access for oligarchic elites to public decision-making.

In the 1920s it was no longer possible to exclude the vast majority of the population from political and economic participation. A short-lived but brutal authoritarian regime paved the way for the Compromise State (1930-1960). This was a modernizing regime promoting industrialization, social welfare and widening democracy. But it still retained patron-client institutionality - this time in the guise of party-directed political patronage in an 'industrial/state *hacienda*.' The middle and working classes were brought into the political arena in a clientelistic way. Access to the welfare state - a new super-patron - required mediation by the political parties, which grew into society's backbone. High-placed civil servants and party militants gained control over industry, and the economy became dominated by a handful of political families. The compromise state was based on continued marginalization of the rural population - almost half of all Chileans - as the *hacienda* was maintained and rural unionization repressed. In the 1960s, however, the predominance of the *hacienda* was no longer reconcilable with growth of the national economy. Chile's tradition of political stability was violated by three revolutionary regimes. Presidents Eduardo Frei, Salvador Allende, and Augusto Pinochet all sought structurally to transform Chile's patrimonial order.

Frei did so by integrating 1.5 million poor Chileans into the patronage pyramid of the social welfare state through land reform and popular organization. But he lost control over the forces he had set in motion. No way existed to implement the reform program without alienating the Right and no matter how successful the reforms, the Left could always urge for more. The partisan way in which resources were redistributed further undermined the government's legitimacy. This paved the way for the world's first democratically elected Marxist president. The 'Chilean Road to Socialism' rejected patrimonial hierarchy altogether, and sought to install an egalitarian order instead. But Allende lacked popular mandate - almost two out of three voters had voted against him - and collective economic ownership did not work out as planned. 'Liberated' laborers, instead of contributing to egalitarianism, acted on the basis of short-run self-interests, radicalizing wage demands, increasing the number of strikes, and reverting to stealing and corruption. The economy headed for major crisis, and top business interests were plotting the end of Allende's government.

General Pinochet installed Chile's longest-lived administration. Promising to change 'Chilean mentality,' he crushed the paternalistic state, insulated it from political lobby groups, and imposed the neo-liberal market as key mechanism for resource distribution. The economy became fully integrated into the world market and businessmen acquired status as the cutting edge of society. Pinochet's regime rooted a new political culture in Chile - a fusion of Hayekian neo-liberalism and Catholic conservatism that is liberal in economy but insistent in morality. The military did not manage, however, to eliminate Chilean patrimonialism. Pinochet relied upon patrimonial strategies of statesmanship as much as Chile's first president Portales, and access to the state remained based on exclusionary personalism. Fatalism continued as well - poverty extended to more than two-fifth of all Chileans, while the economy continued to manifest coercion of labor and

extreme concentration of wealth. The neo-liberal society was achieved at the price of weaving patronage into the topmost spheres of regime performance. The Chicago Boys and their successors regulated the economy through technocratic neo-liberal principles, but were themselves selected and promoted by a Patron above politics.

Contemporary Chile remains a patrimonial society. Modern patronage is diffuse and incomparable to what it was before - i.e. landlord-tenant relations on the *hacienda*, and party-directed patronage under the welfare state. It could be argued that modern Chile has reached a tipping point from where the culture of paternalism will fade away - the country is undergoing sweeping changes suggesting a breakdown of patrimonial values, such as the recent legalization of divorce, and the forecast that Chile will become the first nation in the Americas with a female president. Nonetheless, there is durability within change - patrimonialism continues to shape Chilean modernity. While the Chilean elites rank among the world's top three rich (Sutcliff, 2002), fifty-seven percent of the population see themselves as victims of the economy (UNDP, 2002). Tax contributions are low, the informal economy is large, and business is dominated by vast conglomerates. Politics hinges on the figure of the president, schools teach respect for military victories, laws are being sold in street kiosks, and youngsters mention fear of God as the most important value in life. Only 45 percent of all Chileans are committed to democracy (UNDP, 2002). Sixty-nine percent say they have no trust in what others say, and 71 percent feel dissociated from society (ibid.).

This culture of fatalism may be rhetoric, as much as Chilean Catholicism - while 89 percent of the population declare themselves Catholic, Chile has one of the lowest rates of Church attendance among all Catholic countries (Hojman and Perez, 2005). But it may also be that the aversion to Chilean modernity stems from the reduced scope for clientelism in a modern, impersonal free-market democracy - which would suggest that the Chilean masses are longing for a patron rather than emancipated civilians. President George Bush and other prophets of global neo-liberalism portray Chile as an exemplary nation - free, prosperous and successfully integrated into the global network society. That may be true. But it is also true that the culture of paternalism continues to guide the daily behavior of Chileans on the shop floor, in the market, at school, in the polling-booth, etc. This is not the contradiction it seems. For modernity does not come in one guise only. History provides no support for the belief that the different countries in the world will evolve like 'Western' societies. There is a large range of modernities across the globe and fortunately, not even neo-liberalism will put an end to that.

3. The cultural reproduction of 'Chilean institutionality'

Patrimonial governance makes Chile a society of sharp inequalities, arbitrary regulation, and massive marginalization. Hence, in theory Chile would be a good breeding ground for disquiet and revolt, as much as other countries in Latin-America. Yet the patrimonial

coalition of paternalistic hierarchy and clientelistic fatalism gave Chile unique political stability, unequaled in the continent. Chilean patrimonialism entered into deep crisis in 1924 and 1973, but both times it revived through a brutal military regime. This striking durability of patron-client institutionality puts social theory to a serious test - how do we explain that Chileans go along with patrimonialism?

Dominant social theories like rational choice theory and human agency sociology are based on methodological individualism - i.e. on the axiom that behavior is motivated by maximizing self-regarding preferences. This assumption makes it difficult to understand societies other than the perfect market, and surely falls short in explaining why lots of rational, maximizing individuals create a non-optimal patrimonial society. To account for the phenomena observed in Chile, this study puts culture instead of the individual at the center of analysis, endorsing the Durkheimian notion that individual thought has a social origin. This study makes use of (cultural) grid-group theory (GGT), as developed by Mary Douglas (1986) and others (e.g. Hood, 1988; Mars, 1982). GGT holds there is a consistent interrelation between culture and organization. Social groups generate their own view of the world, a cultural bias, which sustains the reproduction of the group. Without an institutional thought style, organizations are incapable of cohering members, generating loyalty, and surviving over time. For organizations to be viable there needs to be a mutually supportive relationship between the structure of the organization and a set of values and beliefs that mobilizes the commitment of the members.

The cultural reproduction of Chilean patrimonialism takes place in the centuries-old debate the Chileans have been sustaining over their 'national idiosyncrasy.' Chileans define their mentality as a mixture of the *huaso* and the *roto*. The *huaso* represents the Chilean 'aspiration for order,' an urge for strong rule and absolute values, while the *roto* denotes the Chilean 'will to be' - a suspicious, adventurous, and opportunistic spirit (Godoy, 1977). Apparently discussing their national mentality, the Chileans are actually addressing the social order in their country. The *huaso* is the patron - Chile's order and stability provided for by patriarchal rule. The *roto* is the client - the suffering and resistance by the masses. The *huaso* and the *roto* presuppose and create each other. The *roto* feels exploited, perceives that fairness is not in this world, and defends his interests through lickspittle and petty pilferage. The *huaso* feels responsible for maintaining law and order, perceives that virtue is not in this world, and uses 'stick and carrot' to enforce compliance. The *huaso* and the *roto* represent the schizophrenic yet durable coalition of paternalistic hierarchism and clientelistic fatalism.

While offering a platform for open critique, the idiosyncrasy debate actually deploys three brilliant ways to encapsulate and neutralize resistance to patrimonialism. First, the 'naturalizing formula' - patrimonialism is being founded in Reason and Nature as the debate predefines Chilean mentality to be its cause. Patrimonialism thus becomes an inevitable social order tailored to the impulses of the Chileans. Second, the 'promised land formula' - the debate holds that the Chileans, a young people, first need to educate and moralize themselves first before they can be as free and prosperous as Europeans

and North-Americans. Postponing institutional change until cognitive change has taken place, the 'promised land formula' blocks effective change here and now. Third, the oscillating call for 'tradition' or 'modernity' (Larraín, 2002). In periods of economic growth, the debate calls for modernity, thereby mobilizing resistance to the patrimonial order. But this resistance will not threaten the survival of patrimonialism, precisely because there is general progress and prosperity. In times of crisis, however, the debate calls for order and tradition, thereby clearing the way for a (violent) reestablishment of patron-client institutionality. Precisely when the institution needs it most, the debate calls upon the Chileans to recognize their roots and go back to the safe grounds of patrimonialism.

Patrimonialism persists in Chile not despite but by virtue of the critique mobilized in the idiosyncrasy debate. It is constantly recreated as the debate about the *huaso* and the *roto* unfolds. To reproduce itself, patrimonialism generates a thought style picturing the Chileans as opportunistic fatalists who need 'stick and carrot' to be straightened out on the road of order and virtue. Any foreign visitor to the country must have run into the claim - in a casual conversation over soccer or politics - that the Chilean people are a lamentable genetic mixture of Indigenous ignorance and Hispanic corruption lagging far behind in civilization and morality. The first time I heard this, I took it as nonsensical. Nonsensical it may be, this fatalistic claim does need to be taken seriously - it embodies the reproduction of patrimonialism as viable 'Chilean institutionality.'

4. The real-life reproduction of 'Chilean institutionality'

The idiosyncrasy debate seems abstract but operates in real life - e.g. in the tomato chain where helps to reproduce patrimonial chain relations. It are the institutional biases of Tomatio (a paternalistic hierarchy) and the contract farmers (clientelistic fatalists) which lock these knowledgeable actors into inefficient patron-client management.

Tomatio is organized as a hierarchy - it is a rule-bound, layered and group-based organization. This hierarchy is not bureaucratic but paternalistic - a thought style which Tomatio inherited from its holding group *Empresas Iansa*. This group centers around a monopolistic sugar firm founded in 1953 as a state enterprise for rural development. The latter's background has had a pervasive influence on the evolution of the holding group and its corporate culture and business strategies. While privatizing, diversifying and expanding internationally, the group held on to a paternalistic business strategy - i.e. to provide enlightened leadership and all-embracing farm support to smallholder contract farmers. Internally, the group portrays itself as a big family bringing progress and development to all its loyal members. This rhetoric sustains long records of service, personalized working relations, and a strong corporate identity, but obscures a reality on the shop floor of tight top-down managerial grip and fragmented working processes - Taylorist practices that survived the introduction in the 1990s of a process-approach to

management based on SAP software. The paternalistic bias of the group is also reflected in its typical hierarchist Achilles' Heel (Hood, 1998) - i.e. excessive trust in top-level leadership, overheated expectations, disregard of human factors, and dramatically collapsing 'think big' projects. These blind spots neatly define the troubles the group went through in the late 1990s.

Tomato growers are organized as fatalists. Financially dependent upon agribusiness credits, they sign a unilaterally defined contract subjecting themselves to a centralized authority and ceding entrepreneurial autonomy (high grid). At the exception of a few isolated groups that collectively buy inputs, the growers are unorganized and incapable of posing collective demands *vis-à-vis* the industry (low group). The farmers I worked with were some of the finest agrarian entrepreneurs in the region, well educated and capitalized. On average they planted 28 ha of tomato on a total crop area of at least 70 ha, and obtained annual farm profits of around US$ 73,000 - not a bad income at all, and certainly not by Chilean standards. Yet they all tended to evaluate the tomato chain in terms of submission, exploitation and fickleness - i.e. the expression of a fatalistic thought style. They reject cooperation as something likely to have unpleasant outcomes, and instead defend their interests individually. One strategy is to forge good personal relationships with the company in order to receive special treatment - e.g. more credit or a blind eye at quality control. The other strategy is swindling - e.g. by filling up the bottom of the gondolas with green tomatoes, a technique known as *la cuchufleta*.

As a paternalistic hierarchy, Tomatio steers the supply chain in a patrimonial way - i.e. with centralized decision-making, compulsive all-embracing services, and no room for local agency. Tomatio legitimates this management model claiming that growers are incompetent and untrustworthy - they need 'stick and carrot' to be straightened out on the road of progress and development. Tomatio's claims about farmers' idiosyncrasy appear to be true - the growers are incapable of managing the crop by themselves, are reluctant to invest, and massively indulge in swindling. The growers legitimate their behavior, however, claiming it is their defense against Tomatio's authoritarian and unilateral way of doing - which is also true. Hence, there is a vicious circle of distrust - swindling by fatalistic farmers goes hand-in-hand with patrimonial command by the industry. Both sets of actors legitimate themselves referring to the other's idiosyncrasy. Their potential to act otherwise is blocked by their limited rationality, partial blindness, selective memories, and restricted competences.

Organized as isolated individualists, the growers selectively perceive and memorize experiences confirming their feeling of being exploited. They find it reasonable to take justice into their own hands and defend themselves by cheating. From all possible actions that might be taken to improve their situation, they chose repeatedly and almost blindly for short-run individual resistance, in accord with a fatalistic thought style (Mars, 1982). Alternative responses, like concerted action, are hard to materialize, because the social environment is one of distrust and opportunism.

Commanding a hierarchical supply chain, Tomatio perceives that farmers disregard the rules agreed upon. From the great variety of farmers' behavior, Tomatio selectively perceives and memorizes poor compliance, incompetence, and cheating. To assure order and compliance, Tomatio increases its managerial grip on the chain. From all possible actions that might be taken to increase chain discipline, Tomatio chooses almost blindly for tighter procedures and control. Alternative responses, like market mechanisms, are hard to materialize, because the social reality is one of distrust and opportunism.

The institutional biases of the actors constitute a series of real material limitations to alternative patterns of chain interaction. Chaos would reign if Tomatio were suddenly to change its control-based organization into one based on functional autonomy because farmers lack the skills for that. Organizational change requires the chain participants to critically examine their blind spots and build up different attitudes and competences. The current chain climate - distrust - is far from stimulating such demanding endeavor. The chain platform that was constructed as part of this research project suggests that chain relations improve through mediated egalitarian dialogue. But lasting impacts were never in sight. The platform remained system-locked - it was a personal intervention of the researcher as a egalitarian broker between a patron and his clients. As difficulties arose, the actors fell back on patron-client relations - the path of least resistance. For both actors, it is far easier to let things be as they are. While Tomatio governs through a policy of divide and rule, the farmers find their own personal way to defend themselves. Supported by the idiosyncrasy debate, 'patron-client institutionality' has grown as the most natural way to get things done in the tomato chain.

In March 2004, Tomatio was taken over by one of its competitors. My impression is that the firm had stretched the patrimonial chain model beyond its limits. In the chain platform, Tomatio had called upon its growers to engage themselves as fully-fledged chain partners. But the company failed to open up organizational room for that. It organized workshops, sent top growers on a trip to California, and offered cutting-edge technologies. But it did not decentralize decision-making or stimulate entrepreneurial initiative. In practice, Tomatio only increased the grid experience of the growers, adding another line of compulsive services - mechanized transplanting and harvesting. Under such incoherent rule, growers probably reckoned they were better off at the competition, where they are allowed to work in the old, manual way - which is cheaper, less risky, and provides more opportunity for their favorite 'arts of resistance' - *la cuchufleta*.

5. The pro- and contra's of 'Chilean institutionality'

In the eyes of an European observer, 'patron-client institutionality' may seem untenable. Featuring sharp asymmetry, arbitrary regulation and authoritarian rule, patrimonialism violates principles of egalitarianism, universalism, and citizen participation (Gellner, 1977). On top of this, patronage systems run into contradictions in competitive market

settings, provoking institutional distrust and hampering entrepreneurial initiative (e.g. in the tomato chain). If trust is a pre-condition for complex society (Fukuyama, 1995), then patron-client organization is indeed antithetic to modernity. Yet patrimonialism remains viable in the modern Chilean free-market democracy. This is not only because of its capacity to generate a cultural bias for self-reproduction. Chilean patrimonialism also remains viable because its disadvantages entail advantages (Table E.1).

Table E.1: The pro's and contra's of 'patron-client institutionality'

Viability / strengths	Costs / weaknesses
Strong paternalistic leadership legitimized by broad popular support	Sharp inequalities and massive exclusion
Leaders display innovation and accountability as they compete over followers	Lack of cooperation in long term issues
Tailor-made solutions to individual needs	Particularistic interests may prevail over general interests
Strong interpersonal trust	Institutional distrust
Strong compliance and commitment (rewarded with promotion and privileges)	Grassroots initiative is limited and may erupt into blind revolt (responded by to brutal repression)

A fair assessment of patron-client institutionality requires abandoning our own cultural bias. Our measures of development and efficiency, like measures of beauty, best fit the assumptions of the individualistic Western world (Hanks, 1977). The balance sheets of our organizations do not include the costs of the many specialized institutions which our society must have to keep the economy running - the old people's homes that care for the retired, the social insurance that provides for the unemployed and technologically displaced, the relief that cares for the dropouts, the therapy that heels psychic problems, the health care for obesity and cardiac diseases, the agencies that put a brake on economic immigration, etc. In Chile, many of these 'external costs' are either prevented or internalized by organizations, as they feel responsible for their members in a paternal way. Though badly paid, workers can often count on support by the employer beyond the stipulations in the labor contract, as in the case of emergencies. Likewise, what we see as 'disguised unemployment' may well be a more efficient solution to job scarcity than our instituted system of doles.

Grid-group theory holds that the four cultural ways of life (hierarchism, fatalism, individualism, egalitarianism) have to find some kind of balance for a community to be sound - a balance which can be achieved with different mixtures. Modern Chile seems to have found its own balance between hierarchism and individualism, different from that in Europe. Our liberal societies have such strong feelings against hierarchy that we forget about its merits (Douglas, 2001). At the same time, liberalism believes so much in equal

opportunities that it fails to acknowledge its own practice of unequal distribution of power and wealth. Chilean patrimonialism puts limits on competition by ascribing social positions, teaching modesty and loyalty, and encouraging people to take care of each other in interpersonal exchange networks. It puts limits on power by stretching functional relations into personal relationships, integrating social considerations into economic decision-making, and holding top authority responsible for the well-being of dependents and their families. For want of such traditional hierarchy, modern European societies have set up elaborate systems of laws and institutions to counterbalance the excesses of unbridled individualism. In consequence, private initiatives in Europe are bound to clash with endless bureaucracy, whereas the hierarchical Chilean society is designed to facilitate personal livelihood solutions. Hence, the outcome of liberalism in Europe is over-regulation of social and moral aspects of life - a paradox that puts the notion of freedom in a different perspective.

Chilean patrimonialism is weak in local agency and too dependent upon the whims of its big leaders. It would surely improve with more influence from egalitarianism. As a consultant working with agribusinesses and peasant cooperatives, I have tried this by introducing participatory working practices. But these interventions always jammed on a critical limitation of patrimonialism - the need for patriarchal leadership. As long as I was around to steer and motivate, things more or less turned out the way I wanted. But the moment I was gone, the actors fell back on old habits. My experiences indicate that patron-client structures improve through organized participation, but that this must be induced and maintained from the top. Perhaps the future for 'Chilean institutionality' is that patrons will begin to view their activities from a participatory perspective and thus become better, more effective patrons.

6. The empirical and theoretical foundation of 'Chilean institutionality'

The provocative tone of the proposition - that patron-client organization is 'Chilean institutionality' - may easily raise critique of essentialism, as if it pretends to be the thread running through Chile's past, present and future. However, the proposition is not a material but a 'grammatical discovery' (cf. Wittgenstein in Monk, 1990). It discovers no everlasting, all-embracing patronage relations 'out there' in Chile, but conceptual connections across space and time that help explain how institutions work in Chile, and how people communicate and make sense in these contexts. For instance, supply chain management in the present-day tomato industry is explained in connection to the *hacienda* system that governed rural Chile until the 1960s. This connection is formally unreal but analytically meaningful, even to a skeptic, as it raises a better understanding of how the tomato chain really works.

The proposition is a middle-range theory for making better sense of management and organization in Chile. It is empirically grounded in extensive fieldwork in the tomato

industry, diverse consultancy experiences across different branches of the Chilean agro-food sector, and five years of living in the country. The scope of the analysis is nation-wide, as the empirical findings are validated and broadened by documentary study of Chile's history and the Chilean idiosyncrasy debate. The theoretical foundation is a combination of patron-client theory, cultural grid-group theory, and Wittgensteinian epistemology.

The focus of the dissertation is exclusively national, as its core concern is to explain the puzzle of how patron-client organization is being reproduced throughout Chile's modernization. But that does not imply that the phenomena described are typically Chilean. Much of what is written here about the Chilean 'way of doing' makes sense for larger parts of the world. Few countries in Latin-America are free of patronage politics, clientelistic civil organization, and the prevalence of interpersonal exchange over formal institutions. Also Africa used to be governed by a patrimonial elite. Its problems of war and poverty derive from the post-colonial collapse of the system of patronage due to the growth of a huge class of youth without leader (Richards, 1996, 1999). In countries like Sierra Leone, where half of the population is under eighteen, the threat of war and terrorism seem highest. But also European modernity continues to be shaped by patron-client relations. For instance, Blockmans (1997) argues that the world-shocking affairs in Belgium in the 1990s - involvement of top-level politicians in corruption, criminality and sexual abuse of children - are rooted in the patronage structures that underlie the Belgian political system.

A certain degree of patron-client organization also appears inherent in the framework of contract farming. Research shows that centralized authority, individual bargaining and discouragement of grassroots organization are common elements of agribusiness control in contract schemes the world over (Clapp, 1988; Glover, 1987). But there are also cases where contract growers are well organized *vis-à-vis* the industry, not only in Europe with its cooperative tradition, but also in developing countries, such as in palm oil production in Cameroon (Konings, 1998) or dairy supply chains in Java (White, 1997). The social organization of out-grower schemes depends partially on technical factors, such as technological uncertainties in crop production requiring room for bottom-up feedback (Vellema, 2001). But cultural factors play a role as well - the organization of contract farming is shaped by the historical relationships between farmers, state, and industry (Asano-Tamanoi, 1988).

As patron-client relations are universal, the analytical framework of this study is applicable across the globe. Each context will display different proportions between the ways of life that make up 'patron-client institutionality'. For instance, this study found strong hierarchism in *Tomatio* - i.e. centralized decision-making, patriarchal business strategies, and all-embracing chain direction. A paternalistic hierarchy as well, *Surfrut* displays more egalitarianism - i.e. horizontal task groups, room for bottom-up feedback, and chain partnership. Elucidating the different mixtures of cultural biases in social organization, grid-group analysis allows for a comparative study of patron-client organization around the world.

7. The added value of the perspective of 'Chilean institutionality'

Chilean institutionality is, of course, not the only way of looking at Chilean society. But it does provide valuable insights that may otherwise remain concealed. Its added value is to open up the Chilean 'way of doing' and, along with that, a potential for change.

The social order in Chile is usually explained by reference to the national mentality. By contrast, this study holds that the Chilean way of being, and the perception of it, is (re)produced in the social environment. Chilean idiosyncrasy is not a congenital package fixed by God, but an integral part of Chilean institutionality - it is a consistent package of cognition, behavior and organization. This reinterpretation sheds new light upon the way things are done in Chile.

It showed, for instance, that the strangulating distrust in the tomato chain is not provoked by the unreliability of the chain partners, as they argue themselves, but by the centralist way in which the chain is organized. It showed that the problem of the peasant movement is not a lack of resources, as stakeholders argue, but its dependency upon state support. It showed that Chile's failure to industrialize in the late 19th century did not stem from a lack of entrepreneurship by landlords, as many scholars erroneously argue, but from the same distrust that paralyzes the tomato chain today. It showed that the conspicuous consumption by the Chilean elites was not a psychological flaw, as is generally assumed, but part of the culture of paternalism legitimating super-ordination over the masses. It showed that the upheavals of the 'Chilean Road to Socialism' were not only the result of the political situation at the time, but also of the tensions between egalitarianism and patrimonialism. It showed that Pinochet's choice for neo-liberalism was not just opting for values of the Chicago Boys, but somehow predictable, because individualism was the only way of life not yet tried as a means to modernize a stagnated coalition of paternal hierarchism and clientelistic fatalism. Similarly, it showed that Pinochet's imposition of the neo-liberal market failed to eliminate patrimonialism from Chile, as the General relied upon patrimonial strategies of statesmanship as much as Chile's first president Portales.

The approach of 'Chilean institutionality' enhances our capacity to tackle problems of management and organization in the country. Showing how the Chilean way of being is linked to the nature of the country's institutions, it corrects universalists (who believe that Western management models are directly applicable in the country), localists (who believe that nothing can be changed due to the national idiosyncrasy), and practitioners

(who work piece-meal on derived problems, failing to see the underlying structure). It shows that many of the country's problems stem from the incompatibilities between persisting patron-client organization and modern society. The massive aversion of the Chileans to their society will persist as patriarchy clashes with democracy, centralism with entrepreneurship, and personalism with equality before law.

The scope for resolving these problems is limited, as some critical features of patron-client organization cannot be changed, like the inevitable need for strong leadership. Yet new hybrid forms of organization may be accomplished through well-steered processes of concomitant organizational and cognitive change. The analytical framework of this study is useful for conceiving and directing that process of bilateral change. In a series of consultancy projects, it has proven possible to raise recognition among Chileans and to work on the ground as a mirror from where changes come. Both the tomato chain platform and Surfrut's participatory management model show that the performance of patron-client organization may be improved by creating horizontal task groups and stimulating bottom-up feedback. This is, however, a fragile and artificial process, dependent on systematic effort by a patron, or an external mediator, to create occasions for egalitarian dialogue.

8. The relevance of the study for science and policy-making

The findings of the study indicate that policy-making and private enterprise need to better acknowledge the endurance of local institutional arrangements. Seemingly neutral management models will work out differently as the Chileans, the Dutch, or any other people or social group, have a different perception of basic issues like trust, authority, reciprocity, and accountability. Organizations operating in cross-cultural contexts need to be sensitive to cultural diversity, and accommodate localism and multiplicity within their working procedures. When embarking on processes of organizational change, they will have to face institutional durability, system-blindness, and the need for concomitant organizational and cognitive change.

The study is relevant to chain sciences as it provides guidelines for the cultural management of supply chains. The study is relevant to the debates on globalization and network society as it rejects the assumption of all-encompassing change, and provides an understanding of local responses to global developments. The study is relevant to patron-client theory as it conceptualizes the persistence of patron-client organization in modern settings. It is relevant to grid-group theory as it offers an in-depth case study of the relatively unexplored fatalistic way of life. The study is relevant to social theory as it points to the shortcomings of individual rational choice theory, shows the merits of structural functionalism, and offers insights into durability within change.

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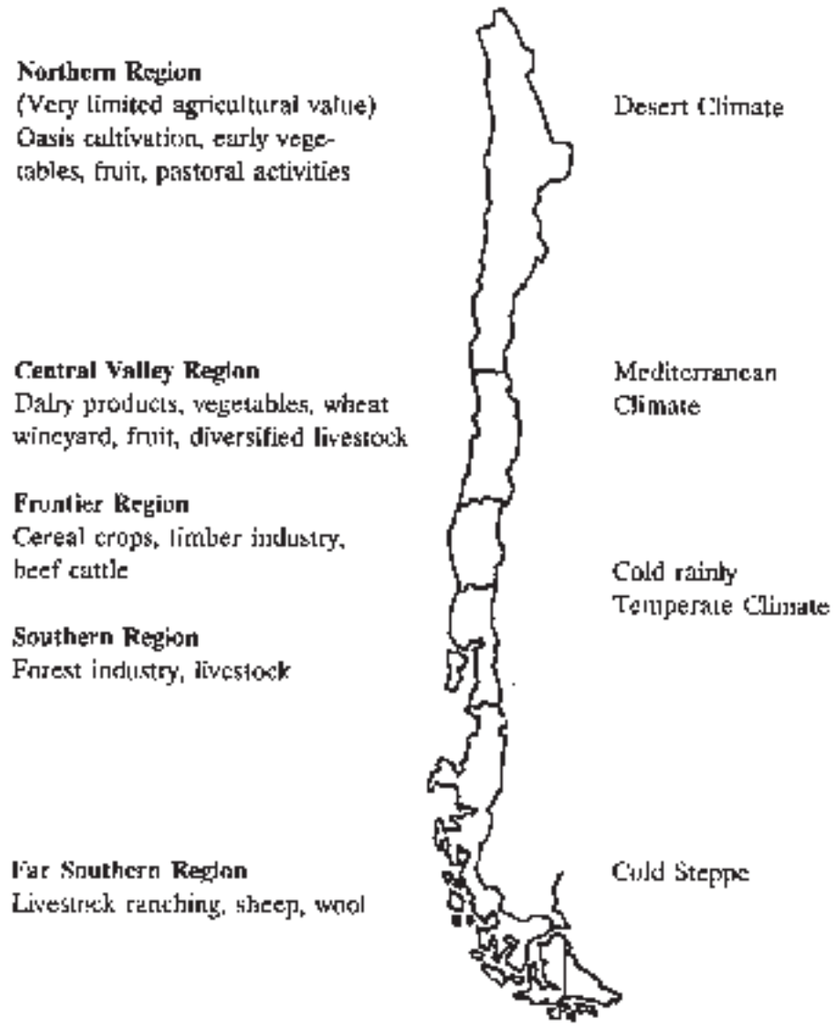
Appendix 1 Map of Chile

	REGIONS	PROVINCES	
I	TARAPACÁ	Arica Iquique	
II	ANTOFAGASTA	Tocopilla Antofagasta El Loa	
III	ATACAMA	Chañaral Copiapó Huasco	
IV	COQUIMBO	Elqui Limarí	Choapa
V	ACONCAGUA	Valparaiso San Antonio Quillota Petorca	San Felipe Los Andes Isla de Pascua
VI	BERNARDO O'HIGGINS	Cachapoal	Colchagua
VII	MAULE	Curicó Talca	Linares
VIII	BÍO BÍO	Ñuble Concepción	Arauco Bio Bio
IX	DE LA ARAUCANÍA	Malleco	Cautín
X	DE LOS LAGOS	Valdivia Osorno	Llanquihue Chiloé
XI	AISÉN CARLOS IBAÑEZ DEL CAMPO	Aisén General Carrera Capitán Prat	
XII	MAGALLANES AND ANTARTICA CHILENA	Ultima Esperanza Magallanes Tierra del Fuego Antártica Chilena	

Borrowed from Kay, C. and P. Silva (1992) (eds.),
Development and social change in the Chilean countryside:
from the pre-land reform period to the democratic transition,
Amsterdam: CEDLA



Borrowed from Kay, C. and P. Silva (1992) (eds.),
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Appendix 2 Country profile of Chile (2003)

Land	Total land area: 748,800 sq km Coast line: 6,435 km Arable land: 2.6% Natural resources: copper, timber, iron ore, nitrates, hydropower
Population	Inhabitants: 15,823,957 Population growth rate: 1.0% Median age: 29.8 years Ethic groups: white-Amerindian 95%, Amerindian 3%, other 2% Religions: Roman-Catholic 89%, Protestant 11%
Economy	GDP: US$ 154.7 billion GDP per capita: US$ 9,900 GDP real growth rate: 3.3% GDP composition: agriculture 6.4%, industry 38.6%, services 55.1% Inflation rate: 2.8% Labor force: 6 million Unemployment rate: 8.5% Labor by occupation: agriculture 13.6%, industry 23.4%, services 63%
Socio-economic indicators	Life expectancy: 76.4 years Infant mortality rate: 9 deaths/1000 live births HIV/AIDS prevalence rate: 0.3% Literacy: 96.2% Population below poverty line: 20.6% Household income share: lowest decile 3.7%, highest decile 41% Gini index: 56.7% (0% is perfect equality, 100% is total inequality) Mobile cellular lines: 6,445,700 Internet users: 3.575 million
Government	Government type: republic Chief of state and head of government: President Ricardo Lagos Legislative: bicameral National Congress and Chamber of Deputies Constitution: 11 September 1980, amended several times Suffrage: 18 years of age, universal and compulsory Political parties: Coalition of Parties for Democracy (including Socialist Party, Christian Democratic Party, Party for Democracy and Radical Social Democratic Party), Alliance for Chile (including Independent Democratic Union and National Renovation) and the Communist Party

Source: CIA World Fact Book, www.cia.gov

Appendix 3 Methodological aspects of the study

This study is based on four years of living and working in Chile (from January 1999 to March 2003). Its findings derive not only from empirical fieldwork and secondary data collection, but also from a range of consultancy activities. The research methodology may therefore be typified as participatory research or action-research - the analysis was developed and validated together with stakeholders in a series of real-life consultancy projects. This appendix presents a reflection upon the research process.

Fieldwork in the tomato industry

Fieldwork in the tomato industry forms the core of this study - it generated most of the empirical material and research questions. In fact, the central proposition of the study did not emerge from behind a desk, but from aromatic tomato fields in the Central Valley of Chile. The puzzle of why the tomato industry related to its growers like a patron to clients in spite of related inefficiencies, raised my interest for a cultural-historical analysis of Chilean management and organization. My conceptual quest for 'Chilean institutionality' was thus firmly grounded in empirical real-life experience.

The fieldwork I did in the tomato industry went beyond standard social science activities like surveys, interviews and participant observation. I got engaged in the tomato chain as a chain mediator, contracted by the processor Tomatio to improve its chain relations with growers and machinery contractors. This engagement was born out of necessity, because my research interests in corporate management and downstream chain practices required cooperation by the industry. Alternative sources of information, like universities or state agencies, were insufficient for my purposes, as business-related information is readily classified as confidential. Making a private company cooperate in a research project, implies giving something in return - something that be tangible and useful for business purposes. Hence, the only way to do the research I wanted to do, was to get engaged to the tomato industry and tailor my research activities to its needs.

Before requesting Tomatio's collaboration, I took care to know exactly what to offer to whom at what moment. Because in a previous attempt to gain cooperation by a firm - a sugarbeet processor - my request, presented in academic terms, had been turned down relentlessly. Hence, when approaching Tomatio, I took eight months to prepare my case carefully and wait for the right moment. It was like a game of chess, thinking several steps ahead. My strategy was to link up with the chain development project that the company was preparing. This project, geared at mechanization of the supply chain,

contemplated the use of external consultants and co-financing by a state agency. One month before the company was to submit its application, my patience was rewarded. The liaison officer that dealt with the application - a personal acquaintance - told me that the manager in charge of the project had just been put on the screw by his superiors in Santiago for the meager results of the mechanization program at Bonduelle, a sister company. This was a golden opportunity to offer myself as a solution to a real-life business problem. I called the manager and offered him to conduct an honorary study into the managerial problems of mechanization.

The company knew about my presence in the region. For the past eight months, I had been showing my face within Tomatio's working area, talking to farmers and appearing at local events. I knew people in different positions and worked with diverse institutes, like the regional university, but I had made sure not to bind myself to local interests. My neutral background, together with the tailor-made enticement I offered, were enough to give me the benefit of the doubt. The manager had nothing to lose and accepted my proposal - a joyful moment that marked the beginning of three consecutive seasons of close collaboration. During the first season, I evaluated the mechanization program and came to the conclusion that mechanization required a process of bilateral change. The company needed to open up and delegate responsibilities to give room to the growers to evolve from dependent clients into entrepreneurial chain partners. Tomatio agreed with this diagnose and decided to adapt its chain project accordingly. I was asked to provide a methodology and an action plan to make it happen. My proposal of a grid-group transfer through egalitarian dialogue in a chain platform was well received. Hence, as the second season of the project began, the company dismissed the original consultant and contracted me instead. Suddenly, I had ample budget, a field assistant and formal support by the company. For the exact methodology of the chain platform and its experiences, I refer to Chapter Five. The third and last season, Tomatio contracted me to facilitate the chain committee and to help implementing new chain management software at farmer level.

By virtue of this position, I was able to do rich fieldwork, based on a close everyday working relation with the stakeholders. During the first harvesting season, for instance, I was out in the field every day, either by myself or accompanying a technician, hence, closely informed of all rumors and events in that conflictive period. I turned a blind eye to the technicians glancing in my notes; my message was transparency and trust. Being there every day, for several months, was crucial for gaining confidence. The personnel started seeing me as part of the team; as an interlocutor with whom to gossip and share frustrations about stubborn farmers or arrogant bosses in Santiago. We played soccer, enjoyed barbeques and went out drinking together. The company even helped me to arrange a study trip to the Brazilian tomato industry. Though I remained an outsider, not allowed, for instance, to participate in internal meetings, we developed a relation of mutual respect and convenience. For three exciting years, Tomatio allowed me a close look into its daily operations, working procedures and - perhaps more than intended - its

informational systems.

With growers and machinery contractors I had good relations as well - they saw potential benefits in my work and understood that I did not represent the company. My foreign background and the honorary nature of my work during the first two seasons helped to underscore my neutrality. Besides that, I had been involved in organizing and training a local group of tomato farmers. Finally, my close relationship with Don Nano - regionally the largest tomato grower and a respected opinion leader - gave me high status among farmers. As I enjoyed Don Nano's friendship and trust, I got a close look into the perspectives and strategies of a contract grower - a level of insight that cannot be obtained through interviews. I witnessed, for instance, how he adapts his swindling techniques to the company's behavior or how he manages to get harvest vouchers while other farmers are told to stop harvesting. With Tomatio's main machinery contractor I developed a similar friendship that lasts until today.

My consultancy activities in the tomato chain included - besides several meetings and workshops as discussed in chapter five - an individual semi-closed survey and in-depth interview to thirty-five growers, eight machinery contractors and the sixteen staff members of Tomatio's agricultural department. The survey to the farmers is included in Appendix Four, the one to Tomatio's staff in Appendix Five. The growers in the survey are not representative of the wider population of tomato farmers. They are top growers, selected by the company to participate in the chain project on the basis of crop experience, assets, annual sales, managerial skills, etc. Nevertheless, I have a good look on the reality of other classes of growers as well, as I had many open interviews and casual conversations with tomato growers working for Tomatio or one of its competitors. I had further reference material in the guise of twenty in-depth interviews to tomato growers that I had conducted in 1995 for my M.Sc. research on the Chilean tomato industry.

Applying the method of 'chain mapping', I covered a large part of the tomato chain through in-depth interviews. Besides the parties above, I interviewed seed companies, nurseries, brokers, naval firms, quality inspectors, consultants, and certification agencies. Five tomato processors allowed me to interview their personnel, ranging from technicians and field officers to agricultural and industrial managers to commercial and/or general managers. To get inside information, a series of repetitive interviews with ex-employees and ex-managers of the industry was particularly useful. A clever usage of the information provided by them, would provoke confessions by other stakeholders.

The more I understood the language and codes of the world of tomato paste - like the term *cuchufleta* - the more the actors would open up to me. By showing my face every day, speaking their language and sharing their problems, I was accepted as part of the scene. This intimacy provided for a unique fieldwork experience, generating insights that would never have emerged from interviews. The analysis I made of the tomato chain was developed and validated in close interaction with the stakeholders - in fact, it was bought as a product and translated into a project. Fifty real-life persons spent time, energy and

money in a project that was based on my analysis. This recognition not only made me very proud, but at later stages it also helped me to overcome my recurrent doubts whether I would be able to develop sufficient support for the proposition of the study. The trust these entrepreneurs gave me assured me that my analysis was real and meaningful.

Other research and consultancy activities

My experiences in the tomato industry are validated and broadened by a range of other research and consultancy experiences across the Chilean agro-food sector. Very fruitful was my collaboration with Surfrut, a fruit and vegetable processor (see Chapter Seven). Jaime Crispi, Surfrut's general manager, welcomed me as interlocutor in systematizing, improving and disseminating the participative management model that he was pursuing at the company. Surfrut's doors opened fully and unconditionally, after a paper I wrote helped the company to win the 2000 Management Innovation Award extended by the Ministry of Agriculture. For two years, I came once a week to Surfrut to spend an entire day participating in internal meetings, studying company documents, conducting in-depth interviews to staff and clients, accompanying field officers, and contemplating over lunch with Jaime. The full openness by Surfrut provided a rich, unfiltered look into the daily working routines and decision-making processes in an agribusiness firm. The lunches with Jaime taught me about shop floor relations, corporate management, agribusiness interest organization and Chilean history and culture. My weekly visits to Surfrut also had indirect benefits - they sharpened my capacity to observe and interpret management practices in the tomato industry.

Besides Tomatio and Surfrut, I made field visits and conducted interviews to a dozen of other agribusiness firms in the Central Valley that contract smallholder and medium-sized farmers for the production of seeds, fruits or vegetables for domestic and export markets. As I deliberately chose for diversity, the companies I visited ranged from high-tech multinationals to shabby local businessmen and from ex-cooperatives to socially engaged landed capital. These research activities were superficial but sufficient to conclude that patron-client relations are widespread across the Chilean agro-food industry.

After two years of residence in Chile, I obtained a working permit, reduced my PhD contract to three days a week, and started a part-time consultancy business. For three years, I provided management consultancy to agribusiness firms, peasant cooperatives and public agencies. I developed a supply chain management project for a small winery, similar to what I had done in the tomato industry. I made a supply chain diagnose for Bonduelle (frozen vegetables), but we did not make a project out of it. The FAO hired me to elaborate an action plan for farmers-owned supply chain development in four product sectors (citrus, wine, organic vegetables and fresh cut flowers). For the Ministry of

Agriculture, I elaborated a strategic vision on business development in smallholder agriculture. I helped to set up a national business platform for peasant cooperatives (see Chapter Six). I worked with a dozen of peasant cooperatives in improving their supply chain, management systems and/or internal organization. These consultancy experiences not only gave me deep insights into the problems of supply chain management and rural organization in Chile, but also an opportunity to test, develop and sell my analysis of Chilean institutionality in a wide range of real-life business situations.

In Santiago, I had an infinite amount of semi-structured interviews with agro-food-related companies, state agencies, interest organizations, scholars and consultants ('expert interviews' and 'indirect stakeholder mapping'). My original intention to penetrate into higher levels of the Chilean agribusiness community proved unfeasible, and gradually disappeared from my agenda as my research interests shifted towards cultural and historical issues. Nevertheless, for learning about the take-off of Chile's modern export agribusiness, I did speak to a fair amount of well-placed (ex-)managers and (ex-)politicians.

In Santiago, I spent infinite hours in libraries, doing documentary research on Chile's agro-food sector, the history of the political economy and the debate on the national idiosyncrasy. This documentary research was clearly guided by my effort to support - or reject - the hypothesis of persisting patron-client organization in Chile emerged from the field ('aspect-seeing', cf. Wittgenstein in Mock, 1990). The National Library and those of CORFO, CEPAL, Sociedad Nacional de Agricultura (SNA) and the Universidad Católica were most useful for my purposes.

Appendix 4 Survey to tomato growers

WAGENINGEN UNIVERSITY
WAGENINGEN UR

Survey to farmers

Objective: To get your opinion and ideas about how to improve the chain relations

ALL INFORMATION WILL BE HANDLED CONFIDENTIALLY

This survey is part of a project to generate trust and improve the supply chain relations between the company, the farmers and the machinery contractors. This will be done through a mediated chain dialogue, steered by an independent external advisor. The project is part of the Supplier Development Program and is financed by Corfo.

Lucian Peppelenbos
09-3276585

GENERAL OPINION

What is the level of trust you have in your technician?

1 2 3 4 5 6 7

What is the level of trust you have in the managers?

1 2 3 4 5 6 7

What is the level of trust you have in the company as a business partner?

1 2 3 4 5 6 7

What aspects of your business relation with the company are positive?

What aspects of your business relation with the company are negative?

What changes are needed to arrive at a true partnership?

Changes by the company: .....

Changes by the farmer: .....

THE DIVISION OF DECISION-MAKING POWER IN CROP PRODUCTION

Decision over...	Current situation		Desired situation	
	Farmer	Company	Farmer	Company
[illegible]	____ %	____ %	____ %	____ %
Soil preparation	____ %	____ %	____ %	____ %
The variety	____ %	____ %	____ %	____ %
Planting dates	____ %	____ %	____ %	____ %
Planting density	____ %	____ %	____ %	____ %
[illegible]	____ %	____ %	____ %	____ %
[illegible]	____ %	____ %	____ %	____ %
[illegible]	____ %	____ %	____ %	____ %
Irrigation	____ %	____ %	____ %	____ %
[illegible]	____ %	____ %	____ %	____ %
[illegible]	____ %	____ %	____ %	____ %
[illegible]	____ %	____ %	____ %	____ %

THE DIVISION OF DECISION-MAKING POWER IN HARVESTING

Decision over...	Current situation			Desired situation		
	Farmer	Company	Contractor	Farmer	Company	Contractor
Harvesting date	____ %	____ %	____ %	____ %	____ %	____ %
Operation for harvesting	____ %	____ %	____ %	____ %	____ %	____ %
Amount of harvest equipment	____ %	____ %	____ %	____ %	____ %	____ %
Where to buy harvesting equipment	____ %	____ %	____ %	____ %	____ %	____ %
Price of harvesting machine	____ %	____ %	____ %	____ %	____ %	____ %

THE SERVICES

Mark what services you would like to receive directly from the company:

- ☐ Seedlings
- ☐ Agro-chemicals
- ☐ Cages and bins
- ☐ Tools
- ☐ Harvesting services
- ☐ Plantation services

Where do you need the technician for?

THE PRICE

The company notes that the price cannot rise because of low market prices. Therefore, the company follows a strategy of cost reduction through mechanization.

Do you share this vision?

- ☐ Yes
- ☐ No
- ☐ Partially: .....

What type of information do you need to understand the company's vision?

RECEPTION

Currently, the harvest is adapted to the ripeness of the crop, which allows for high recovery of the crop but implies high losses due to long waiting hours. In other countries, the company establishes a system of weekly deliveries, which allows for an orderly harvest but implies the obligation to harvest the crop whether ripe or not.

What system do you prefer?

- ☐ The current system
- ☐ A system of weekly deliveries

QUALITY CONTROL

Farmers have little confidence in quality control. They think it is not representative nor objective nor consistent. Many fail to understand the strong fluctuations in punishments. On the other hand, the industry notes that farmers do not respect quality standards and yields.

What is the level of trust you have in quality control?

1 2 3 4 5 6 7

How could quality control become trustworthy?

- ☐ With participation by the farmer
- ☐ With presence of an external auditor
- ☐ Realized by an external institute

- ☐ A flexible system (allowing for higher and lower tolerance)
- ☐ An objective, consistent, inflexible system

TECHNOLOGICAL INNOVATION

Currently, the industry more stress technological innovation. The farmers are passive recipients of new technologies. They do not participate in determining the research agenda.

What could be your role in technological innovation?

What kind of information could you generate to nurture the innovation process?

How do you think the crop system will look like in five more years?

Appendix 5 Survey to Tomatio's staff

WAGENINGEN UNIVERSITY
WAGENINGEN UR

Survey to the company

Objective: To get your opinion and ideas about how to improve the chain relations

ALL INFORMATION WILL BE HANDLED CONFIDENTIALLY

This survey is part of a project to generate trust and improve the supply chain relations between the company, the farmers and the machinery contractors. This will be done through a mediated chain dialogue, steered by an independent external advisor. The project is part of the Supplier Development Program and is financed by Corfo.

Lucian Peppelenbos
09-3276585

GENERAL OPINION

What is the level of trust you have in your farmers?

1 2 3 4 5 6 7

What is the level of trust you have in the farmers that participate in the POP?

1 2 3 4 5 6 7

What is the level of trust you have in farmers in general?

1 2 3 4 5 6 7

What aspects of your relation with farmers are positive?

.....

What aspects of your relation with farmers are negative?

.....

THE DIVISION OF DECISION-MAKING POWER IN CROP PRODUCTION

Below are mentioned decisions related to crop production and protection. Please, indicate for each decision the degree of control exercised by the farmer, by the company and by the contractor, both in the current and the desired situation (multiple answers possible). The total should be 100% for each case.

control by the farmer ____% control by the company ____% control by the contractor ____% = 100%

Decision over...	Current situation		Desired situation	
	Farmer	Company	Farmer	Company
[illegible]	____%	____%	____%	____%
Soil preparation	____%	____%	____%	____%
[illegible]	____%	____%	____%	____%
[illegible]	____%	____%	____%	____%
[illegible]	____%	____%	____%	____%
[illegible]	____%	____%	____%	____%
[illegible]	____%	____%	____%	____%
[illegible]	____%	____%	____%	____%
Irrigation	____%	____%	____%	____%
[illegible]	____%	____%	____%	____%
[illegible]	____%	____%	____%	____%
[illegible]	____%	____%	____%	____%

THE DIVISION OF DECISION-MAKING POWER IN HARVESTING

Decision over...	Current situation			Desired situation		
	Farmer	Company	Contractor	Farmer	Company	Contractor
Harvesting date	____%	____%	____%	____%	____%	____%
Procedure to harvesting	____%	____%	____%	____%	____%	____%
Amount of manual workers	____%	____%	____%	____%	____%	____%
Where to buy harvesting services	____%	____%	____%	____%	____%	____%
Price of harvesting services	____%	____%	____%	____%	____%	____%

THE SERVICES

Currently the farmers receive almost all services directly from or through the company. Please indicate whether you want the farmers to continue receiving those services from the company or from a company of their preference.

	through/from the company	wherever the farmers wants
Technical assistance	☐	☐
Seedlings	☐	☐
Soil analysis and fertilization case	☐	☐
Agro-chemicals	☐	☐
Cages and bins	☐	☐
Trucks	☐	☐
Harvesting services	☐	☐
Transplanting services	☐	☐
Financing	☐	☐

TECHNICAL ASSISTANCE

Where does the farmer need the technician for?

What are the company's responsibilities in crop production?

THE SEEDLINGS

This year's problems with the seedlings and the huge economic losses suffered by both parties show the need for a better organization of seedling production and distribution.

What is the best way to reduce the risk of massive seedling infection?

☐ Increase the number of nurseries while maintaining the competitive mediation

☐ Promote direct relations between farmers and nurseries so that the free market will force the nurseries to improve their product

☐ Define quality standards for the seedlings in the contract and authorize the farmers to reject them.

☐ Allow the farmer to produce himself (part of) his seedlings.

☐ Other

Why?

THE PRICE AND PRODUCTION COSTS

The company holds that the price for the primary material cannot rise because market prices are low. To improve crop profitability, the company pursues a cost reduction strategy. The farmers, however, do not share this vision completely. They do not think the price is at its maximum and they do not know how to further reduce costs.

What type of information should the company share with the farmers to convince them of the impossibility of further price increases?

What production costs can be reduced?

QUALITY CONTROL

Farmers have little confidence in the system of quality control. They think it is not representative nor consistent. They complain the consignments are unseen – even while a sample is taken. As they fail to see a relation between the punishments and their work, they are inclined to do the 'contraband'.

How can quality control be organized so that farmers have more confidence in it?

Please indicate whether you like one of the following options:

With presence of an analyst part by the farmers	☐ Yes	☐ No
With presence of the farmer	☐ Yes	☐ No
With presence of an external, independent auditor	☐ Yes	☐ No
Realized by an external, independent institute	☐ Yes	☐ No

The system of quality control is inconsistent. Sometimes, to prevent problems with a farmer, or when there is little production, the quality standards are not applied strictly. Though this favors the farmers, it hurts the credibility of the system.

Do you think it is better to have an objective, inflexible system of quality control?

☐ Yes

☐ No

If yes, how can this objectivity be guaranteed?

PDP FARMERS VERSUS OTHER FARMERS

There are huge differences in managerial skills between the farmers who participate in the PDP and those who don't. While the latter need constant support and attention, the first are better trained and more entrepreneurial. They demand more autonomy for independent decision making. Some of them shifted from tomato production to other crops because the company could not give them more autonomy.

Do you think it is necessary to differentiate the company's treatment of PDP farmers? Why (not)?

How can this treatment be differentiated? In what aspects?

TECHNOLOGICAL INNOVATION

The competitiveness of the chain increases when there is joint action in technological innovation. Currently, the company alone drives innovation. The farmers are passive recipients of new technologies.

What role could each chain segment assume in joint action for technological innovation?

Role farmers:

Role company:

Role machinery contractors:

Farmers are reluctant to invest in new technologies because they have little confidence in the future of the crop.

How could the company make the farmers have more confidence?

REQUIRED CHANGES

Taking everything together, what changes are needed to arrive at a true chain partnership?

Changes by the company:

Changes by the farmer:

Changes by the machinery contractors:

Thanks for your cooperation!

Samenvatting (summary in Dutch)

Het Chileense mirakel. Cliëntelisme in een moderne vrije-markt democratie.
Lucian Peppelenbos

Internationale organisaties zoals de Wereldbank en het IMF presenteren Chili als een schoolvoorbeeld van hoe een niet-geïndustrialeerd land zich met neo-liberaal beleid kan ontwikkelen tot een succesvolle vrije-markt economie. Dit proefschrift laat echter zien dat Chili niet zo neo-liberaal is als beleidsmakers ons doen geloven. De Chileense maatschappij herbergt een cliëntelistische organisatiecultuur die zich uit in patroon-cliënt-achtige relaties, sterk hiërarchisch leiderschap, personalistische regulering, institutioneel wantrouwen en fatalistische attitudes. Chileense organisaties en bedrijven kenmerken zich veelal door centralistische besluitvorming, het flexibel toepassen van regels, en een gebrek aan ruimte voor initiatief van onderop. Oplossingen worden eerder gezocht in persoonlijke uitwisselingsrelaties dan in formele instituties.

Deze organisatiecultuur schuilt achter één van de toonbeelden van het Chileense neo-liberale 'exportmirakel' - de tomatenverwerkingsindustrie, die na wijn, vers fruit en zaadvermeerdering de vierde agro-sector in het land is. Deze sector is exportgericht, technologisch vooruitstrevend en in handen van multinationals, maar de ketenrelaties werken volgens eeuwenoude patroon-cliënt principes. De industrie stelt eenzijdig het productiecontract op, neemt bijna alle operationele beslissingen, verplicht de telers tot een totaalpakket aan producten en diensten, maar versoepelt dat alles in persoonlijke relatie met de telers. De telers hebben nauwelijks vrije ondernemingsruimte, zijn niet georganiseerd, en verdedigen hun belangen op individuele wijze. Dit doen ze door vriendschapsrelaties met het personeel van de industrie te kweken, in de hoop op een betere behandeling, zoals het verkrijgen van de meest productieve variëteit, of een dichtgeknepen oogje bij kwaliteitscontrole. Daarnaast proberen ze waar mogelijk te zwendelen, bijvoorbeeld door onderin een vracht onrijpe tomaten mee te sturen. Dit alles leidt tot grote inefficiëntie in de keten. Er heerst een klimaat van institutioneel wantrouwen, waarin beslissingen te centraal genomen worden en regels onvoldoende gerespecteerd worden. De vraag rijst waarom dit 'verdeel en heers' ketenmodel kan blijven bestaan in zo'n competitieve bedrijfssector.

Het antwoord hierop ligt in de verre geschiedenis. Chili's eerste landelijke politiek-administratieve regime werd gesticht door de Spaanse kolonisatoren. Dit regime was bestuurlijk gestoeld op de *hacienda* - agrarische gemeenschappen waarin de bevolking arbeid en loyaliteit bood aan de landheer, in ruil voor leiderschap, basisbehoeften en bescherming tegen de anarchie die buiten de landgoederen heerste. Zo onstond er wederzijds nuttige 'solidariteit' tussen landheer en ondergeschikten. Deze patroon-cliënt relaties strekten zich uit tot nationale politiek en economie, omdat ook deze terreinen

beheerst werden door de landheren. Kortom, de Spanjaarden vestigden cliëntelisme als Chili's prototype voor complexe maatschappelijke organisatie - zoals in Nederland de hoogheemraadschappen voor decentraal waterbeheer de basis lijken te zijn van ons 'poldermodel.' In de twee eeuwen na onafhankelijkheid in 1818 moderniseerde Chili tot een relatief welvarend, geürbaniseerd land, waarin na 1960 geen plek meer was voor de *hacienda*. Maar het patrimoniale model hield wonderwel stand. Chili's industrialisering werd door de centrale staat aangestuurd en betekende een verdieping van partijpolitiek cliëntelisme. Zelfs de revoluties van Frei, Allende en Pinochet maakten hier geen einde aan. Pinochet verving de welvaartstaat door een vrije-markt economie, maar was zelf een patriarchale staatsman. De Chicago Boys leidden het land op technocratische wijze, maar waren zelf aangesteld door een patroon die boven de politiek stond. In hedendaags Chili blijft cliëntelisme bestaan als een organisatiecultuur in politiek en economie.

Een institutie die eeuwenlang standhoudt vraagt om een verklaring. Hiervoor maakt dit proefschrift gebruik van de *cultural grid-group theory* van Mary Douglas e.a., welke ervan uitgaat dat individuele cognities hun oorsprong hebben in de sociale omgeving. Groepen creëren hun eigen wereldbeeld (sets van waarden, preferenties en aannames) die de reproductie van de groep ondersteunt. Zonder een dergelijke 'institutionele denkwijze' zijn groepen niet in staat om hun leden vast te houden en te overleven. Dit zelfreproducerende mechanisme is prachtig zichtbaar in Chili in het eeuwenoude debat tussen Chilenen over hun eigen 'nationale idiosyncrasie.' De Chilenen rechtvaardigen de patrimoniale orde in hun land door deze te zien als een product van hun nationale mentaliteit. Ze zien zichzelf als een jong volk met een opportunistisch karakter dat eerst morele waarden aangeleerd dient te worden door een sterke leider, voordat ze toe zijn aan werkelijke vrijheid en democratie. Het idiosyncrasiedebat biedt dus ruimte voor maatschappelijke kritiek, maar leidt tot *status quo* door institutionele verandering uit te stellen totdat de Chileense mentaliteit het toestaat. Daarmee wordt verandering hier en nu geblokkeerd.

Ook in de concrete realiteit doet het idiosyncrasiedebat haar werk. Het patrimoniale tomatenketenmodel houdt stand, omdat de industrie aan haar centralistische ketenregie vasthoudt zolang zij ervaart dat boeren onbetrouwbaar zijn - terwijl de contracttelers onbetrouwbaar blijven handelen zolang zij ervaren dat de industrie autoritair en arbitrair is. Er is dus een vicieuze cirkel van wantrouwen; een gesloten circuit waarin de cognitie en organisatie van de beide actoren elkaar in stand houden. Op eenzelfde wijze laat dit proefschrift zien dat cliëntelisme zich eveneens reproduceert in boerencoöperaties en in arbeidsverhoudingen op de werkvloer. De onderzoeker heeft als consultant geprobeerd meer participatieve werkwijzen te introduceren (in de tomatenketen, bij een agrarisch bedrijf en in boerencoöperaties), maar stuitte telkens op een kritisch systeemkenmerk van cliëntelisme - de noodzaak van persoonlijk leiderschap. Initiatief van onderop was vruchtbaar zolang dit aangestuurd werd door de consultant in samenwerking met de top van de organisatie. Maar zodra de consultant van het toneel verdween, viel het initiatief als een kaartenhuis in elkaar. Daarnaast neigden de betrokkenen terug te vallen op oude

gewoonten zodra er zich moeilijkheden voortdeden - het reeds bekende is immers de weg van minste weerstand.

De conclusie is dan ook dat de cliëntelistische organisatiecultuur voorlopig niet uit Chili zal verdwijnen. Dit proefschrift raadt Chileense leidinggevenden aan om meer op participatieve wijze te werken, omdat daarmee grote efficiëntiewinsten geboekt kunnen worden, zoals blijkt uit de casus van Surfrut in hoofdstuk zeven. Tegelijkertijd raadt het organisaties die overwegen in Chili activiteiten op te zetten aan om rekening te houden met de hardnekkigheid van een patrimoniale organisatiecultuur. Ogenschijnlijk neutrale management modellen werken anders uit in Chili, omdat daar andere ideeën heersen over zaken als leiderschap, vertrouwen en verantwoordelijkheid. Tenslotte raadt het beleidsmakers en onderzoekers aan om bij beleidsvorming verder te kijken dan de realiteit vanachter een bureau. Chili is inderdaad een moderne vrije-markt economie, maar op een andere manier dan in Europa. Het Chileense exportmirakel is wellicht niet zozeer gebaseerd op neo-liberaal beleid als wel op het voortbestaan van cliëntelisme binnen de vrije-markt economie.

About the author

Lucian Peter Christoph Peppelenbos (born in Oranjestad, Aruba, Dutch Antilles, on the 16th of September 1973) attended the 'Han Fortmann College' in Heerhugowaard. In 1991 he started studying at Wageningen University and in 1996 he obtained an M.Sc. in Rural Development Studies, with majors in rural sociology, law and governance, and agrarian institutions. He specialized in farmer organization and contract farming through a practical period at a Chilean rural union in 1995 and through a research project on the Chilean tomato industry.

From 1996 to 1998 Lucian worked for Agriterra, a Dutch non-profit organization for international cooperation between rural people's organizations. In 1998 he obtained a Ph.D. research grant from the Netherlands Foundation for the Advancement of Tropical Research (WOTRO) and started working as researcher at the Chair Group Technology and Agrarian Development, Wageningen University. He participated in CERES, the Netherlands research school for development studies, and in Mansholt Instituut, the Wageningen research school for economic and managerial sciences. From 1999 to 2003 he was in Chile doing fieldwork. During this period, he was a visiting researcher at Talca University and he worked part-time as a management consultant for agribusinesses, farmer cooperatives, local government agencies, and international institutions such as FAO and Fair Trade.

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