

# **DEVELOPMENT OF ENTERPRISES IN RURAL AREAS IN POLAND**

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## **1. Introduction**

The integration of Poland with the European Union has created possibilities of improving the situation of farms in rural areas, but most of them still face many problems. The main issues are small incomes and lack of possibilities of development. There are more than 2 million farms in Poland, but only 200-300 thousand have possibilities to development in rural production. The others can exist in the market but their owners have to look for alternative sources of incomes.

The term alternative sources of income of farms are not explained well in the literature. Some authors describe the alternative incomes as new plants and kinds of animals in rural areas.

Some authors claim that breeding of fallow deer, ostrich and goats are good examples of alternative income of farms. However, the number of such farms in Poland is rather small (150).

Such a small number of farms will not solve problems of many farms because the breadth of the market is small. Few Polish consumers will buy such products and most farmers must export the animals.

Agritourism is an example of alternative incomes in rural areas. Polish tourists like to spend free time in rural areas.

Over last fifteen years the number of agritourism farms has increased to 12 thousands. Such farms cooperate well in the market, but they will not solve problems of all farms.

Agritourism is developing well in regions with good natural resources and many lakes such as Warmia and Mazury located in north-east part of Poland.

The most popular alternative source of incomes of farms is non-agricultural activity. Some farmers look for alternative incomes because they have no possibilities to improve their economic situation in agricultural production.

Non-agricultural activity in rural areas is represented by small and medium-sized enterprises. They employ mainly people from families and local villages. Such enterprises can be a catalyst of local rural development.

However, such enterprises face many problems of development. The development of Polish economy would not be possible without the small and medium-sized enterprises.

This sector is fundamentally important for economic sustainability. According to data from the Central Statistical Office, the number of small and medium-sized enterprises in Poland exceeded 1.6 million in 2009.

The SME sector is a significant source of new jobs and innovations.

A dynamic development and the possibility of rapid development to the changing market conditions are the most important characteristics of this sector.

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According to the Ministry of Economy the SME sector makes up to 99.8% of all enterprises in Poland, including 96% of micro-enterprises employing fewer than 10 people, 3% of small business employing 10 to 50 people and fewer than one percent of the medium-sized companies employing between 50 to 250 people [1, p.25].

The most important characteristic of small and medium-sized enterprises is independence of decision making and responsibility for the obligation of the owner. These smaller firms can adapt to changing market conditions are much easier than large companies [2, p.20].

The topic of small and medium-sized enterprises development has been discussed in the past literature.

Schumpeter formulated the thesis of “creative destruction” according to which capitalism would have not existed without the continual emergence of new companies.

The capitalist economy is still on the go and that is why the process of transformation is leading it to the higher level of development. There are various conditions having an impact on the process of death and birth of new companies.

The most important are new requirements of the markets, integration and globalization processes and the improvement of technology. The process of development and promotion of new small and medium-sized enterprises depends on the entrepreneurial culture and attitude of the society to conduct a business [3, p.24].

## **2. Aim and methodology**

The objective of the survey was to recognize the conditioning of enterprises development located in rural areas. We have surveyed 354 farms operating in eight provinces:

- Warmińsko-Mazurskie;
- Podlaskie;
- Pomorskie;
- Zachodnio-Pomorskie;
- Lubuskie;
- Mazowieckie;
- Lubelskie;
- Łódzkie.

The owners of 354 business entities were run by farmers.

The research was carried out in 2009, and the main interviewers were the ODR (Agricultural Advisory Centre) employees.

The survey was carried out as part of a habilitation degree project with the support of grant No. NN112 386240 from the Ministry of Science and Higher Education.

The subject of the research includes kind of activity, territorial range of activity, state of development, increase of turnover, assortment and market.

We asked the entrepreneurs whether they are satisfied with incomes and about the farm's area.

## **3. Results**

The research of Sikorska-Wolak proved that the owners of farms need to identify entrepreneurial achievements that give the ability to adopt to change and introduce new innovations [4, p.73–74].

In economic sciences the form entrepreneurship is linked with the establishment of the enterprises. In the praxeological meaning, entrepreneurship is the ability to act and in terms of the teaching enterprises is education.

However, most definitions of entrepreneurship combine this with the functioning of the company "making and maintaining its own business".

Much non-agricultural economic activity in rural areas is carried out by women. Frequently the owners of business are younger and middle-aged women (up to 40 years).

They have often a degree in economics, agriculture, catering and other sciences [5, p. 65].

Research conducted by the authors shows that the rural environment has a positive impact on the development of entrepreneurship in Poland, the U. S. and other countries.

Rural businesses run by women are perceived positively. If the enterprise is run by a woman this has a positive effect on sales, customers.

The author has shown that the success of businesses run by women in rural areas is affected by: hard work, economic factors, enthusiasm and passion, and effective management.

According to SAWICKA small business in the country plays an important role, because it has features that enable the rural development by [6, p.104]:

- job creation and employment of the local population;
- the development of innovation regions;
- co-operation with other entities, which contributes to the steady development of the larger enterprises.

There are many reasons that rural areas need entrepreneurial activity [7, p.25]:

- the traditional way of farming and an unfavorable agrarian structure;
- high unemployment outside agriculture and idle labor;
- unemployment in the country, especially in areas where there were state farms;
- small scale of farm production, which means that production costs are high and there are problems with the sale of products;
- low level of education of farmers, which negatively affects the development of farm.

Entrepreneurship in rural areas is manifested not only in the modernization of farms but also in the development of agricultural product processing, development services, commercial projects or crafts.

These are all common entrepreneurial activities in rural areas.

The development of rural enterprises is closely linked with competitiveness and innovation. The word innovation means renewal and creating something new.

According to Firlej competitiveness of rural enterprises depends on competition in the market, transformation processes and integration with European Union.

Moreover, innovations in rural enterprises are characterized by the share of new products in the value of total products sold [8, p.84].

It should be noted, however, that the possibility of the development of enterprises and innovation in rural areas are determined by many factors, including mainly infrastructure, wealth of the population, local initiatives and other institutions.

Farmers also play an important role because they are seeking different paths to improve the performance of their farm businesses [9, p.383].

The literature allows us to evaluate our own research.

Most of the surveyed enterprises are trading companies (fig. 1). This activity usually does not require big capital outlays. These companies are represented by:

- small village shops;
- groceries;
- green-groceries;
- firms selling agricultural production inputs;
- other products.

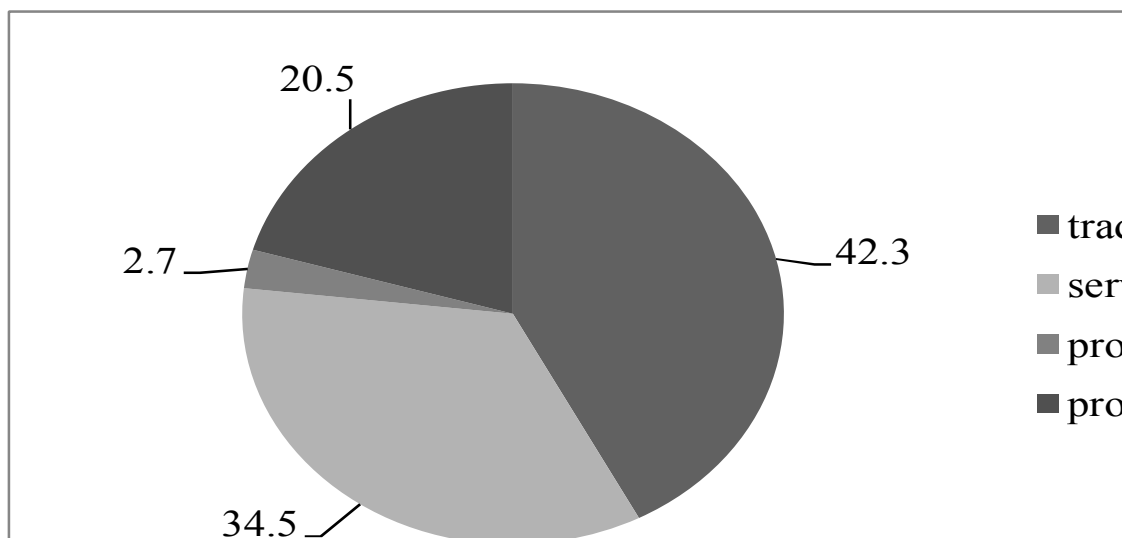
Another kind of activity is service (34,5%). Companies providing services in rural areas are represented by:

- transport;
- advisory;
- finance;
- agriculture services;
- other.

Such companies deliver services for local inhabitants.

Some enterprises operated as production companies (20.5%). Such activities need money for necessary equipment, machinery, technologies and other items.

The smallest number of surveyed enterprises operated as processing firms (2.7%). These companies mainly process food and natural resources into final products. Such companies produce furniture for local inhabitants and other products.



**Fig. 1. Kind of activity of surveyed enterprises (%)**

Source: own research

One phenomenon which is a challenge for management of modern enterprises is globalization. According to Bogdanienko, globalization is entering the latest competitors firms in the domestic market are international.

The author uses the term to define the processes of growth between the different actors of economy regardless of their nationality [10, p.119].

The internationalization of the economy is not new, but it looks different today than a few years ago.

The most important difference is the mobility of capital, goods, services and technical progress on a larger scale.

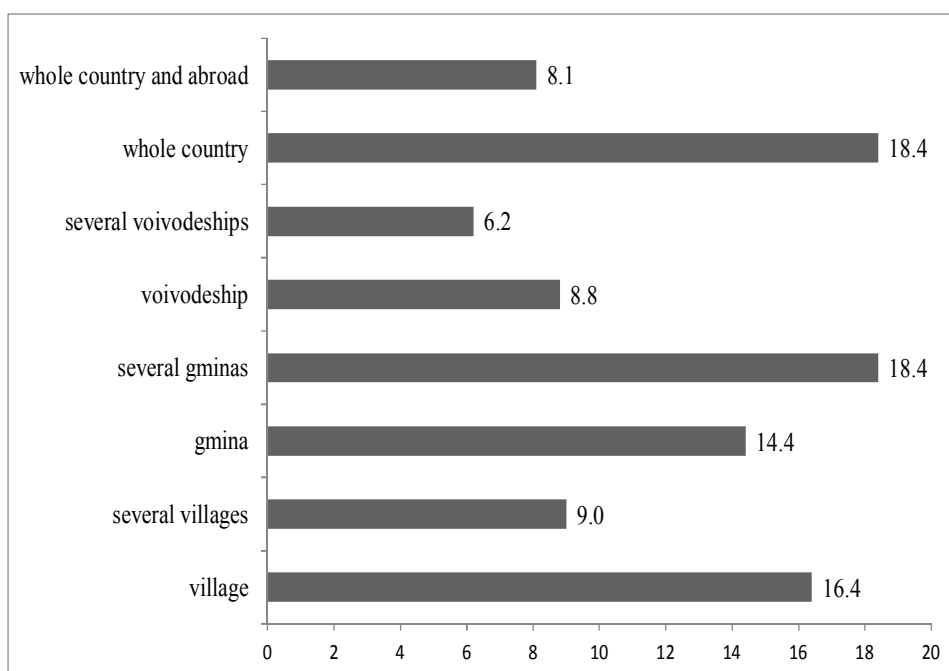
Another important characteristic of today internationalization are decreasing transaction costs of international cooperation. Today's globalization is characterized by increasing liberalization of economic activity [11, p.228].

We wanted to recognize the globalization processes of surveyed farms and their territorial range of activity (fig. 2).

Some enterprises ran activity in their own village (16.4%) and several villages (9.0%). Such firms are typically small. These enterprises normally provide food and other goods for local inhabitants.

Some enterprises operated in gmina (14.4%) and several gminas (18.4%). Such enterprises scale is larger than previous analyzed firms. Only 8.8% operated in voivodeship and several voivodeships (6.2%). Enterprises working in voivodeship are even larger.

The survey found that only 8.1% of enterprises worked in the whole country and abroad. Enterprises operating in the country are bigger, have a wider assortment of products and are more flexible in adjusting to the requirements of the market.



**Fig. 2. Territorial range of activity (%)**

Source: own survey

The owners of the rural enterprises were asked to point out the state of enterprises' development. The vast majority of them pointed out that their enterprises are in the developing state. This means that the conditions for their development are good. Their products meet demand.

Another big group of entrepreneurs pointed out that their companies have an established position in the market (35.9%). Such enterprises offer good products and are recognized in the market. Their owners do not need to have outlays on advertisement.

Only 10.5% of surveyed entrepreneurs said their enterprises are in the introductory phase. This means that they started to operate in the market recently.

The situation of new established enterprises in the market is rather difficult. Nearly 60% of them close down after the first year. That is why only innovative enterprises have the possibilities to survive in the market.

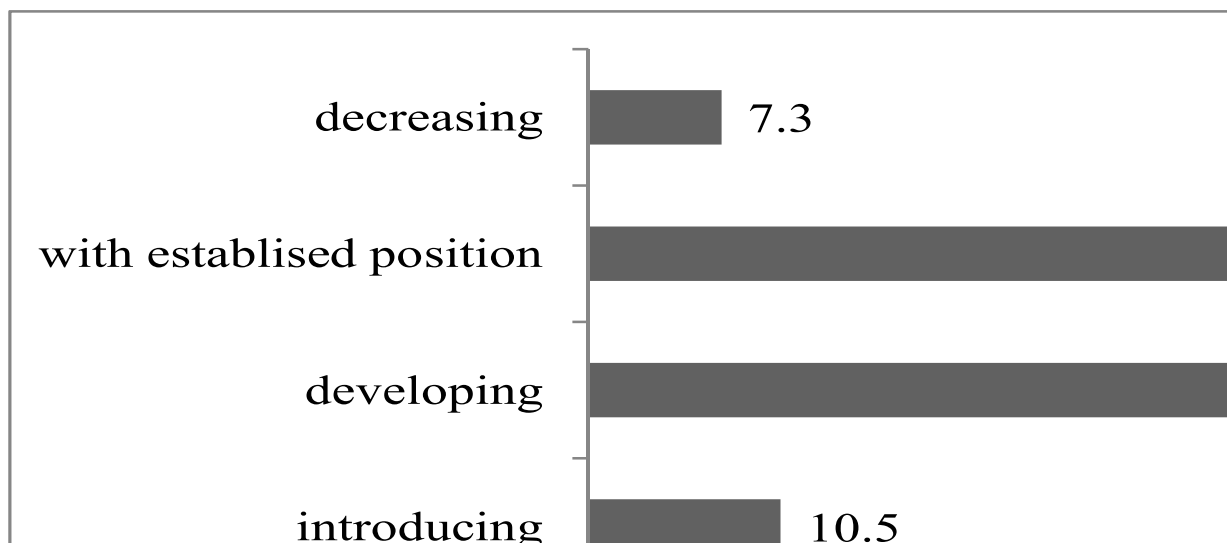


Fig. 3. The state of enterprise development

Source: own survey

Entrepreneurs were asked to point out whether their turnover, assortment and markets are increasing.

The research shows that the biggest number of entrepreneurs showed a turnover increase. It shows good conditions for their development.

Another quite big group pointed out an increase in products or services offered. Such enterprises want to develop well in the future and adjust their offering to consumers' requirements.

Only 28% of entrepreneurs pointed out market growth. It means that the possibilities of market development are limited. Enterprises' owners must look for new markets because the competition is great.

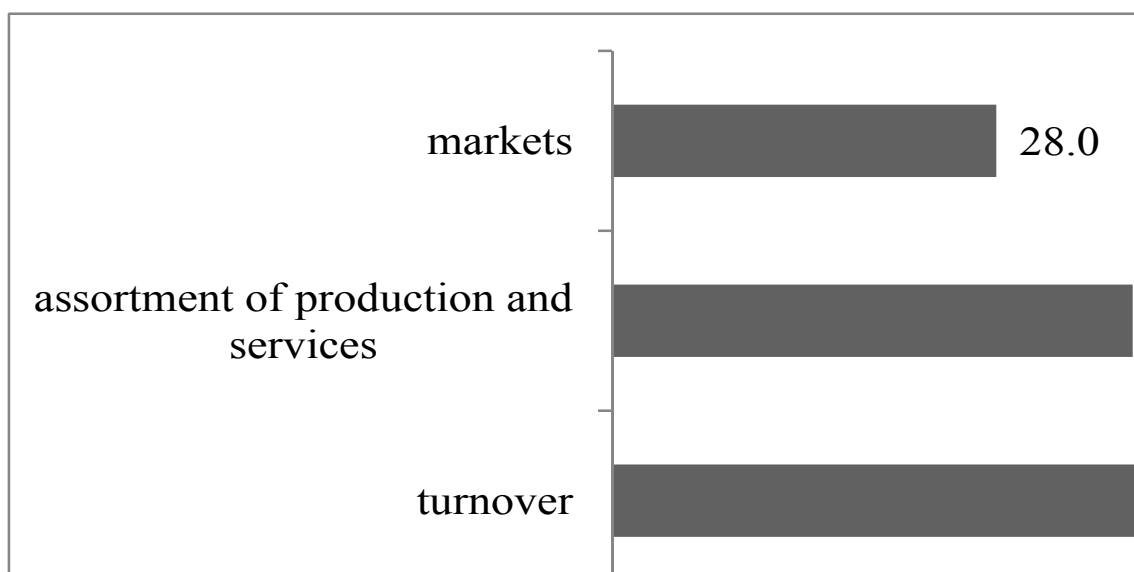


Fig. 4. Percentage of respondents declaring increase of turnover, assortment and market

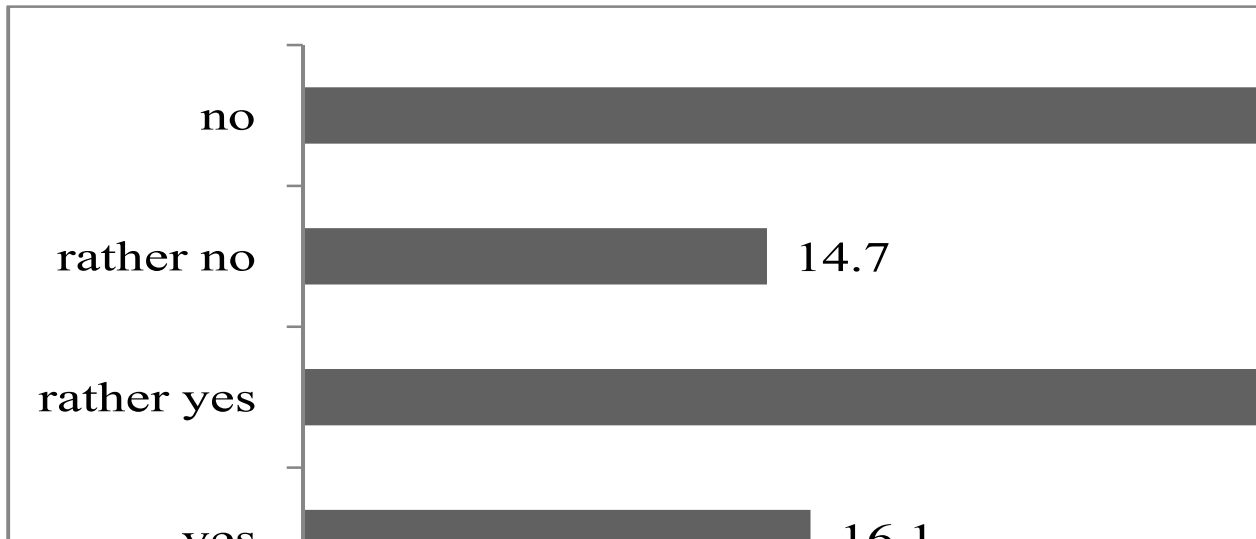
Source: own survey

Entrepreneurs were asked if they are satisfied with the incomes they achieve.

Only 16.1% of entrepreneurs pointed out that they are satisfied with incomes and 35.3% pointed out that they are rather satisfied.

Other entrepreneurs dissatisfied with their income. These results show problems of small and medium-sized enterprises.

Lack of satisfaction of entrepreneurs from achieved incomes is a bad situation for these enterprises.



**Fig. 5. Percentage of respondents declaring satisfaction from incomes**

Source: own survey

Another important information was the area of farms. We wanted to know what land the farms have. Poland has six classifications of land quality. The best are I and II class and the worst – V-VI classes.

**Tab. 1. Lands in surveyed farms**

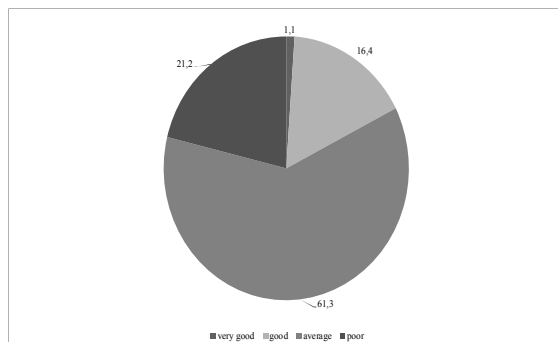
Specification	ha	%
Average farm area	51,6	100.0
Arable land	33,4	64.7
Land class I-II	1,5	2.9
Land class IIIa-IIIb	12,6	24.4
Land class IVa-IVb	17,2	33.3
Land class V-VI	2,1	4.1
Meadows and pastures	6,7	13.0
Orchard and horticulture	4,2	8.1
Other	7,3	14.2

Source: own survey.

The survey proved that the average farm area running non-agricultural activity was 51.6 ha. This is much bigger than average farm's area in Poland (8.2 ha in 2010).

We asked the owners of the farms how they evaluate quality of their land.

Most of them pointed out that they have average (61.3%) and poor (21.2%) lands. Only 1.1% of farmers said they have very good lands and 16.4% had good land.



**Fig. 6. Farmers opinions about lands in their farms**

Source: own survey

#### **4. Summation**

The survey proved the development of farms running non-agricultural activity. It is the most popular source of alternative incomes for farms in Poland.

However, the conditions for private activity are changing in Poland. Most of them are affected by the integration processes and changing market competition.

Farms running non-agricultural activity in Poland are much bigger than a typical farm in Poland. It demonstrates the concentration of capital in bigger farms.

Furthermore farms with non-agricultural activity are much stronger and more competitive and their owners still look for more possibilities of their development.

Most of the enterprises operated in voivodeship, gminas and village. Such results prove small scale of activity. The development of such enterprises depends on consumers' buying force and the level of innovations.

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### **Summary**

Rural areas in Poland and other countries of Europe and the world face many problems of development. The most important are as high unemployment, low productivity of traditional branches of agriculture and bad standard of living of people in rural areas compared to urban inhabitants. One of possible way to improve the difficult situation of rural inhabitants is finding alternative incomes. They include mainly nonagricultural activity, agritourism and other activities. We focused mainly on enterprises run by farmers as we consider this activity as the most important source of alternative income. In 2007 nearly 4.5% of farms in Poland ran nonagricultural activity. It included; service using own machinery, agritourism, agricultural products processing, wood processing, handicraft, plant culture and animal breeding in water and other. The research covered 354 enterprises located in the following provinces of Poland: Warmińsko-Mazurskie, Podlaskie, Pomorskie, Zachodnio-Pomorskie, Lubuskie, Mazowieckie, Lubelskie and Łódzkie. The owners of 354 business entities were run by farmers. The research was carried out in 2008, and the main interviewers were the ODR (Agricultural Advisory Centre) employees. The subject of the research included the problems of enterprises development, chances and threats. We asked the entrepreneurs about possible ways of improvement their situation and sources of finance necessary in their firms' development.

**Key words:** enterprises: rural areas; alternative income of farms.

**UD classification:** 658.005

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