

## **Entrepreneurship in rural areas in Poland - opportunities and barriers of development**

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### **Abstract**

Entrepreneurship is a peculiar renewal of microeconomics under market conditions and there is not any universal description of such a phenomenon. [14].

Entrepreneurship among capitalistic societies is a value itself. Entrepreneurial activity and behaviour are development carriers of the whole economy and they contribute to solving a very difficult problem of unemployment. Unlimited development of entrepreneurship is visible in free market conditions, guaranteeing a proper development of the economic system of the whole national economy.

Three groups of factors decide on developing or disappearing the entrepreneurship in particular countries in the world [2]:

- 1) economic, technological, cultural, ideological, educational,
- 2) the impact of the state on business and social activities by establishing and implementing the law and economic policy,
- 3) created by entrepreneurs and their way of running an enterprise

**Key words:** enterprise, rural areas, extra-agricultural economical activity

### **1. Introduction**

Entrepreneurship developing in rural areas, more difficult than in urbanized regions, has currently become an objective necessity determining a balanced development of countries and regions all over Europe. Economic, social and ecological or political arguments, especially the necessity of decrease in unemployment and taking advantage of labour resources better within the increase in labour quality show the weight of the problem. Rural entrepreneurship concerns not only villages but also the national economy as a whole and that is why macroeconomic and political factors have to favour its development.

The aim of this study is a presentation of an issue concerning entrepreneurship development in rural areas in Poland with carefully taking into consideration needs and a scale of this phenomenon as well as appearing opportunities and barriers.

The subject of the research were national economy transactors functioning in Poland with farms running non-farming businesses. In the article, derivative source materials have been presented embodied in Central Office of Statistics data, concerning the state and

structure of national economy transactors in 1993 to 2004 as well as the results of the 2002 census in Poland.

## 2. Enterprises in Poland – the state and structure

In the last decade of 20<sup>th</sup> century in Polish economy there were great changes. Since the end of 1988 it had been ensuing a slow departure from state-owned economy in favour of free market economy. System transformations, begun in 1989, started the process of appearing entrepreneurial activity and the development of a private sector.

The meaning of the private sector in the Polish economy enormous what is proven by statistics indicating the tendency of fast growing private business since the beginning of 1990s. The data, on the table 1, indicate that in 1993 that is three years after the introducing of free market economy regulations in Poland, there were over 1,8 million private businesses and civil partnerships but in 2006 this rate increased to 3,0 million.

Tab.1. Changes in the number of businesses in Poland in 1993 to 2006.

Detailed list	Year						
	1993	1996	1999	2003	2004	2005	2006
<b>Total</b>	<b>1 995 329</b>	<b>2 412 022</b>	<b>3 039 451</b>	<b>3 581 593</b>	<b>3 576 830</b>	<b>3 615 621</b>	<b>3 636 039</b>
Including sector							
- Public	51 768	55 528	83 306	129 315	134 513	137 597	138 769
- Private	1 943 561	2 356 494	2 956 145	3 452 278	3 442 317	3 478 024	3 497 270
<b>Enterprises</b>							
- State-owned	5 924	3 847	2 599	1 736	1 306	1 029	913
- Council-owned	647	444	-	-	-	-	-
<b>Companies</b>							
- Trading partnership	83 283	115 739	146 859	208 753	220 162	230 588	243 338
- Civil partnerships	186 433	223 113	288 956	279 208	276 897	277 422	278 337
- Other	945	1 237	1 561	1 777	1 861	1 884	1 909
<b>Cooperatives</b>	19 746	19 868	19 328	18 548	18 435	18 303	18 200
<b>Foundations</b>	3 052	4 072	4 906	6 967	7 724	8 400	9 119
<b>Social associations and organizations</b>	8 592	18 637	33 943	61 548	66 573	71 121	76 279
<b>Private people running businesses</b>	1 625 640	1 949 986	2 417 737	2 795 860	2 763 380	2 776 459	2 765 348

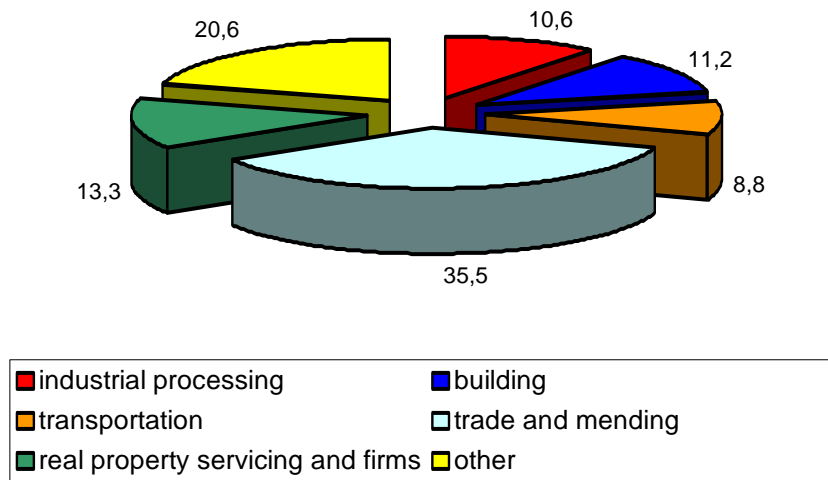
Source: Structural changes in national economy transactor groups in 2001-2006 Central Office of Statistics, Warsaw.

The number of trade law companies almost doubled. The biggest share among private people's firms appeared in trade chart 1. It is connected with the fact that trade is such a business activity that is dominated by small and medium enterprises which do not require great investment expenditures and capital resources. Fast capital turnover and the possibility of accumulating huge money assets encourage to start business activities.

Introducing free market economy, on the one hand, increases the range of transactor independence in decision-making but on the other hand, it also increases the risk and responsibility for undertaken activities what, as a result, determines the existence of an enterprise on the market.

The transformation of Polish economy and UE membership are, on the one hand, opportunities for the development of small and medium enterprises, on the other hand – the threat of strong western firms starting their activity on the Polish market. Two million firms amount to small and medium businesses in Poland of different organizational and legal forms and acting in various branches and economy sectors.

Chart 1. The structure of business transactor activities concerning private people in 2003.



Source: Self-study based on: Structural changes in national economy transactor groups in 2004. GUS, Warszawa.

The European Union pays a great attention to the development of small and medium-sized enterprises (SME) what is reflected in creating the infrastructure and profitable environment to develop this sector. The development of technological potential, innovation promoting, publicizing research results, the development of qualification improvement and entrepreneurship support are major aims of economic policy. This support concerns the whole economy especially it is essential in local systems as there is the need for small and medium enterprise development. [8], [10], [11].

Union guidelines of small and medium-sized enterprises support are being gradually implemented in Poland, beginning with the ways of enterprise classification and ending in concrete programmes enabling to take entrepreneurial actions. It is proven by the guidelines of the industrial policy on small and medium-sized enterprises accepted by the government in 1993 as well as the following governmental programmes titled: “The policy on small and medium-sized enterprises in 1995-1997” and The policy on small and medium-sized enterprises in 1998-2001”. The policy of SME is currently realized on the bases of the programme : “The trends in actions towards small and medium sized enterprises from 2003 to 2006” in which the main aim was activity revival of SME firms by moulding the conditions of creating and using their developing potential, and in this way increase in employment and the level of competitiveness of this sector. More specifically, the aims were [3]:

- supporting the actions influencing on SME development as well as investing in firm development and innovation introducing (with financial support), qualification increasing of workers and management staff as well as the improvement in management quality,
- the improvement in legal and administration milieu as well as the development of entrepreneurship spirit among the society by affecting on taxation system, credit guaranteeing fund system, promoting non-banking institutions of the SME milieu (funds such as venture capital or provident funds),
- the development of SME sector institutional milieu , strengthening the activity of existing institutions and arising new ones in order to provide assistance by informative, consulting, training and financial services,

- the international support of enterprise and activity integration by creating production, distribution groups, enterprise capital ventures, abroad fair centers, virtual data bases, the extension of informative system aimed at export, the simplification of procedures concerning export credit insurance etc and financing their activity.

The process of adapting Polish enterprises to Union conditions has already started and their results are not fully satisfying for the sake of laying foundations of the system which is not so coherent because of [16]:

- the lack of the stable law regulating the conditions of an enterprise activity, searching for help and eliminating appearing threats of their functioning,
- the lack of a satisfactory institutional enterprise and entrepreneurs' support in order to meet Union requirements and assure their competitiveness on the uniform European market,
- the lack of coordination between different actions in the section of individual institution acting,
- the capital and technological weakness of Polish enterprises makes it difficult to restructure, to introduce production innovations, improvement in product quality and their innovativeness and their existence on the uniform European market. In this connection it will be important to introduce Union solutions and their systemic ordering so as to provide the complexity of support what follows the development of SME by the synergy of actions.

### 3. Entrepreneurship in rural areas in Poland

Rural areas<sup>1</sup> in Poland cover 93,4 % of the country and are dwelled by 14 744 thousand people that is 38,1 % out of the total people's number<sup>2</sup>. This means that they are an important factor of the economic policy of the country and they play a significant role in moulding the bases of socio-economic development of the national economy. At the same time, civilization development of these regions depend on rules and forms of active support for national and local structural [12].

The results of the census done in 2002 show that in rural areas for 9,0 mln people their work was their main means of survival (61,4%), and for 5,5 mln people (37,8%) non-earning source was the means of their survival. Among the people working in private sector: 50,8% had their money from being hired, 11,4% of people worked for themselves in non-farming activities or leased their premises.

Among the people living without earnings in rural areas: 43,5% people were retired, 27,4% were not able to work (pension), and 29,1% had other non-earning sources.

Rural areas are very various and similarly to the European Union, it can be divided into four groups [7]:

- dynamically developing rural areas situated next city and tourist centres,
- eroding areas which their survival and development can be dependent on local economy variety and the birth of local potential embodied in tourism, production, craft or services.
- average areas between these types which are traditionally connected with rural economy but they have a very good infrastructure allowing to access to city centre,

<sup>1</sup> Rural area is mostly defined as a territory outside the administrative boundaries of a city. According to the European Union a territory is amounted to rural areas when the people's density (urbanization index) does not exceed 100 people per 1 square km but in OECD – 150 people per 1 square km<sup>2</sup> [Łojewski, Skinder 2003].

<sup>2</sup> Around 2/3 of our country rural area is connected with agricultural activity, and 50 % of farmers' families use their farms and only 8 % people is connected with agricultural activity and their income derives only from agricultural activity and for the rest 9,2 mln people the money from farming are only additional means of survival. [6].

- depopulated or depopulating areas with abandoned farms which should be kept by minimal development of tourism and forestry.

Difficult situation of villages and agriculture in market economy results in the domination of non-functional economy structures in the majority of rural areas and the specification of family farming. There has been an urgent need for overcoming the given problems and activating rural areas. [5].

The entrepreneurship of rural areas is presented in the same forms and in different fields of national economy. By the logical determinants proven by practice there are some characteristic features [1]:

- it is present in the regions which are very differentiated in socio-economic development and inside them various developing, stagnation or weak farms;
- it appears in agricultural production in a strict sense (farming), in flat and economic building, non-farming production, services for people as for companies;
- it has specific tasks in the name of historical negligence in the field of techno-economic infrastructure (transportation, roads, electricity net modernisation, gas-works, waterworks, canalisation, telecommunication, melioration), social infrastructure (training, consulting, agricultural chambers, health care, law and security institutions), so called financial and market infrastructure (purchase works, production supply, banks, insurance institutions) ;
- it must contribute to relieve such harmful unemployment in villages so hided as public;
- it should develop in hard forms of "small business".

The 2002 census showed that in the comparison to 1996, the number of individual farms taking non-farming activity increased. Averagely 12,3 % farms took such an activity, mostly in north-western regions (zachodniopomorskie 16,5%, pomorskie 15,4%).

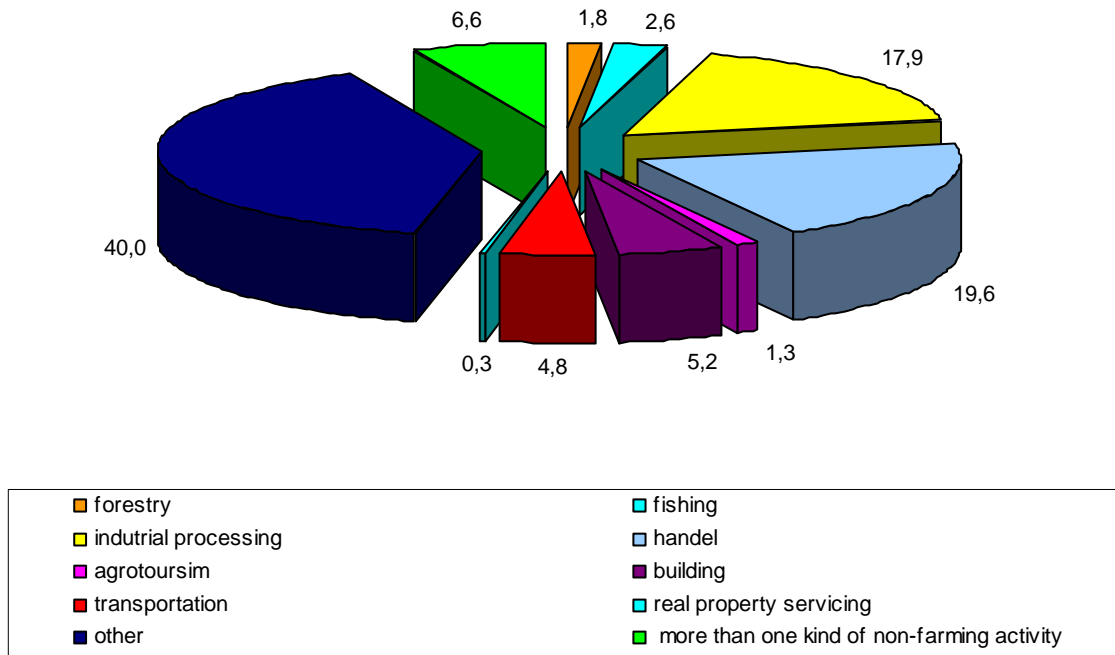
Non-farming activity was the source of earnings for 12,7% of homesteads having individual farms and for which 5,8% incomes exceeded 50% of total income. Running an agricultural business was the source of income for 13,3% of individual farms exceeding 1 hectare, for 5,6% people it was a main source of income.

The mostly taken non-farming actions were: trade 19,6%, industrial processing 17,9%, building 5,2% and transportation 4,8% (chart 2). A very significant percentage of individual farms had other directions and dealt with more than one kind of non-farming activity.

Transformational processes, in Poland, drove to the downfall of a part of minor industry in many small towns, being a great reason for the weakness of economy in villages and unemployment increase. Having taken the experiences form other EU countries it should be aiming at the increase in the need for local products and craft manufactures and the taking out industrial activity to the outside of the cities (small industrialization of villages). Such a programme requires creating many privileges for those who would like to set up a business in rural areas. In order to revive entrepreneurship development investments in rural areas there should be a positive climate for investors. There should be created the mechanisms concerning attracting the investing by the instruments as [4]:

- supply investors with the adequate territories,
- creating stimulating programmes, setting up chains and subsidiaries in villages and small towns,
- realization of programmes concerning qualification increase of rural societies,
- implementing of programmes concerning consulting for firm owners,
- preferential treating of investors by local authorities,
- stocktaking of erode industrial plants aimed at opportunities searching for a possible development.

Rys. 2. The structure of non-farming kinds of economic activity concerning individual farms in 2002 r.



Source: Self-study on the basis of: Non-farming activity of farms [w] The results of the 2002 census, Central Office of Statistics, Warsaw 2003.

Barriers in the development of rural activities are in people, not availability of material or financial assets, it consists of many aspects.

1. Averagely, the level of education is very low so agricultural as village people in Poland especially at the level of higher education. At the lower levels of development, primary or secondary education is the requirement of implementing into the mainstream or act in favour of stimulating this development. At the current level of development in geographical zone in which Poland is situated, higher education determines the participation in such development. The improvement in this field requires actions at national level, the identification of barriers in education access facing villagers, requires paying a special attention.
2. Low level of educational aspirations and underestimating education as a way of improvement in one's own financial and social situation and the conditions of economic development.
3. Low level of activeness, initiativeness and cooperation want in order to realize one's own needs and the Leeds of local societies
4. Inability to use material potential and developing possibilities available to the majority of rural society (uncompleted or incorrect using of technics and technology available in farms).
5. Decline in reading newspapers, magazines and books.

Polish village, except financial or material needs, wants knowledge, motivation, cooperative abilities and predispositions as well as eagerness to justice. [7]. Increase of competitiveness of firms is connecting with the introduction of innovations and taking-up the suitable actions. Actually the European competitiveness is the basic way of controlling of the future economic development. This fact was recordered in acceptable arrangements of the

European Council in Lisbona (March 2000), which were indicating on the need of forming competitive European economy by [13]:

- increasing of innovations,
- liberalization of economies,
- increasing of enterprise and social cohesion.

Using of new solutions which are fullfiling the condition of innovation of firms is connecting with obtaining the European Funds. For Poland were planned the 8,25 billions Euro in project “Innovational economy”.

The increase of innovation is indispensable in regions characterizing by the low level of an economy development. Only in this way will be possible the diminishing of disproportions between regions and elimination the negative results which are creating also the barriers for the enterprise development [15].

This problem is significant, especially in the rural areas, where the increase of enterprise is treating as a basic condition of developmental changes.

The key to success of given processes is the coordinated activity of socio-economic life people and their motivation. One of the existing non-material factors is an internal pressure of local societies felt by their leaders by means of determination will be able to obtain sources needed to finance transformations and implement entrepreneurship spirit. Another set of developing factors of Polish village are objective external macroeconomic factors connected with a general level of economic growth, international market situation and European integration processes [12].

#### 4. Summary

The development of various entrepreneurship non-farming forms is a factor which increases living standards of citizens and changing previous village character, relying on manufacturing produces. As a result of the development in various forms of forming, the whole environment is changing, in favour of local society which can realize their socio-economic aims in their own environment. Creating new work places by the establishing non-farming enterprises in a village can become one of the factors for improvement in local development. Well-prepared and functional entrepreneurs will play a main role in the multifunctional realization of the rural area development. Especially those who are smart, educated, competent who can become leaders in developing entrepreneurship.

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