

DIVESTMENTS AND ECONOMIC FALL OF FARMS – ATTEMPT AT TERMINOLOGICAL DIFFERENTIATION¹

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Abstract. Destruction processes are hardly identified with regard to farms being peculiar economic entities. The purpose of this paper is an attempt of differentiation between the following terms: divestments and the economic fall of farms. A theoretical analysis was illustrated with mass statistics data showing the scale on which farms in Poland discontinued farming activities and the results of quality research conducted among 50 landowners from the Podkarpackie Voivodeship. The analyses presented here allowed to more fully describe the concept of a divestment stressing scope and durability of destructive changes that have been occurring and their planned and intentional nature.

Key words: destruction, divestments, farm, economic fall

INTRODUCTION

Activities of farms are characterized by, among other things, a strong connection of a production farm with a household, an organic nature of undertaken production activities, considerable dependence on natural conditions and a lengthy production cycle. The specific nature of farms to a large extent contributes to their owners' focus on operational activities helping them survive. The existence was a peasant's (farmer's) main purpose of becoming engaged in economic activities. Such growth mostly involved the development of a materials base increasing the farm's potential and a chance for the family to survive.

According to Foster and Kaplan, at the end of the 20th century a new era of discontinuity began during which capital markets dominated by large financial institutions strived at

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creation and destruction [2003]. The markets stimulate fast and broad-scale creation (development) of wealth and do not tolerate poor performance in a long-term perspective. As the number of population, and hence the demand for food and raw materials for biofuels increase, so does the markets' interest in agricultural land and at the same in agriculture. Generally peasants/farmers are expected to change their way of thinking and management. Though unavoidable, the surrender of agriculture to "gales of creative destruction" gives rise to numerous fears.

Destructive changes in agriculture and farms can be perceived both as a symptom of its weakness, but also as an indispensable element of transformation of the Polish agriculture. The purpose of this paper is an attempt at the differentiation between the following terms: the divestments and the economic fall of farms.

MATERIALS AND METHODOLOGY

The conducted research focusing on divestments on farms has encountered numerous methodic barriers, among others: defining divestments, assessing their effectiveness and measuring their economic effectiveness. The paper attempts at answering the question: where is the boundary between divestments and the economic fall of the farm? Theoretical analyses of a methodic nature were illustrated with empirical data gathered during Common Agricultural Censuses held in 2002 and 2010 and quality data collected through interviews with a questionnaire. Field research (a case study) was conducted in 2011 among 50 landowners in the Podkarpackie Voivodeship. Due to conducting the field research in the Southern and Eastern Poland, special attention was paid to regularities observed on small commodity farms, i.e. the farms where production for self-maintenance plays a considerable role. Mass statistics data quoted in the study show the scale of the liquidation of farms and resignation from economic activities by agricultural farms in Poland and in the Małopolska and Pogórze macroregion².

DESTRUCTION AND DIVESTMENTS ON FARMS – THEORETICAL CONTRIBUTIONS

Słownik języka polskiego [2007] defines destruction as 'complete devastation or complete spontaneous disintegration of something'. From Latin destruction (*destruc-tio*) means devastation, disintegration, a breakdown, disorder, disorganization. Destruction is generally perceived as a negative phenomenon. The perception of this concept, however, differs when it is treated as a preliminary stage, the existence of which is necessary for new values to be created, and for new, improved and more efficient systems to be developed.

Destruction is omnipresent in nature, in the economy, in any enterprise. Foster and Kaplan [2003] suggest three forms of destruction: incremental, actual and transformational.

² Based on FADN nomenclature the macroregion consists of the following voivodeships: Małopolskie, Podkarpackie, Śląskie and Świętokrzyskie.

The most widespread form of destruction is incremental destruction, even though quite frequently it is hardly noticeable. Such incremental destruction includes small changes being part of an enterprise's current activities, e.g. changing individual procedures, improving work organization, liquidating individual job positions, which do not require the involvement of senior managers, contrary to actual destruction such as a decision to lay 10% of staff off, or to discontinue to research a new product that may significantly influence the organization's long-term competitive edge. Transformational destruction is a change that irrevocably affects the enterprise. Transformational destruction, for example, involves resignation from the enterprise's core activity or declaring it bankrupt. Such form of destruction is thus more permanent in nature than actual destruction, it is also closer to the concept of "creative destruction" as per Schumpeter's definition.

Regarding a farm, incremental destructive activities are the activities aimed at limiting production in certain areas, leading to the change of the production structure (e.g. decreasing the livestock population in a given group, reducing a cultivation area of a given plant) and a temporary withdrawal from the production of free (redundant) resources of land, labour and capital (among other things, abandoning cultivation of marginal and peripheral lands, starting odd-jobs by a farmer outside a farm, a long-term lease of unused machinery and equipment).

Changes of a more radical nature, which cannot be reversed in a short period of time, can be classified as actual destruction on a farm. Actual destruction includes, for example, discontinuing to breed a given group of a livestock or cultivate a specific variety of plants, taking a regular gainful job outside farming allowing the farmer to continue to be engaged in agricultural activities, leasing a part of land owned in a non-permanent manner (lending land, an oral short-period lease, selling unused machinery, dismantling equipment etc.). Actual destruction usually leads to the stabilization of production at a level lower than before.

The most radical changes are characteristic of transformational destruction that results in permanent changes accompanying the so-called strategic turn. Transformational destruction's nature can be complete or incomplete. Complete transformation results in winding up agricultural business on a farm and reallocation of resources used to-date to another entity (e.g. the sale of an enterprise, leasing land based on a written agreement in force for many years) or the transfer of resources to another area of production or services (e.g. non-agricultural activities). Incomplete transformational destruction allows to continue or even develop agricultural activities, however, it leads to a diametric change of the production structure (a permanent withdrawal³ from breeding a given group of a livestock, cultivation of a given plant). Incomplete transformational destruction can be accompanied by increased activities in other production areas on a farm that remain unchanged or starting new ones (e.g. agritourism, partial processing of own agricultural produce).

³ Permanent abandonment of a given activity means getting rid of fixed assets required for re-performing it in the future, e.g. dismantling and selling of a milker (in the case of breeding dairy cows), selling a potato harvester (in the case of farms engaged in cultivating potatoes) etc.

All three forms of the destruction on farms (i.e. incremental, actual and transformational) can be both a symptom of the farm's fall⁴, and a manifestation of innovations or a stage of the process of restructuring required for its rescue or even development. The term of innovation is inseparably linked to the concept of creative destruction. Referring to Schumpeter's theory, innovations should be regarded as an effect of creative destruction which involves constant destruction of old structures and continuous development of (new) more effective ones. Wójcik [2011] stresses that in a more narrow understanding of the term, innovations are changes rated positively in light of criteria applicable to a given organization (e.g. a farm), improving conditions of its functioning on the market and in the environment, and contributing to its growth.

A decadent phase of the farm's functioning should be interpreted as its fall when the limitations of its production potential prevents the continuation of agricultural activities (the decapitalization and devastation of production assets, the absence of a labour force).

In professional literature changes of a destructive nature occurring in enterprises are more and more frequently described as divestments: 'Divestments on farms come to mean planned and purposeful limitations of agricultural production and/or involvement of resources of a farmer's household in production activities of the farm that lead to

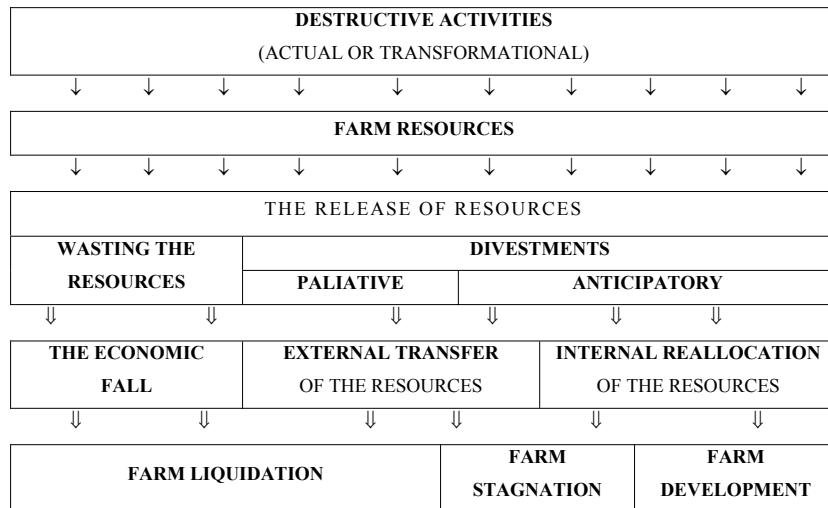


Fig. 1. Destructive activities versus farm development

Source: Own study.

⁴ The economic fall of the farm does not mean its physical liquidation, even though it may lead to the same.

releasing resources of land, labor and capital that may be further used in other agricultural or non-agricultural activities...'⁵.

Hence, in order to classify the destructive activities occurring on farms as divestments, the following three conditions must be met jointly:

- they should be planned and intentional ventures (rather than occasional, accidental or chance activities),
- they should be actual or transformational destruction forms,
- they should lead to the release of resources which will be utilized alternatively on or outside the farm.

If destructive changes occurring on the farm lead to releasing the resources which remain to be unused, including, in production and economic terms, they should be regarded as a symptom of the economic fall of the farm rather than as a divestment (Fig. 1). The above is also applicable where the absence of radical activities aimed at improving the economic standing of the farm results in peculiar entropy⁶, causing the disintegration of an organized and ordered system such as a farm and its components, upon their release, become temporarily passive (e.g. land) or permanently passive (e.g. minor farming tools).

RESIGNATION FROM AGRICULTURAL ACTIVITIES – EMPIRICAL ILLUSTRATION

The process of transformations affecting Polish farms in the first decade of the 21st century was considerably influenced by globalization and integration processes. According to Gołaś and Kozera [2003], the change of the agriculture's structure and position in the economy was mostly impacted by the following three trends:

- relative and unconditional decrease of production potential engaged in the production of food, deprecating social and economic importance of agriculture in the national economy,
- a constant pressure to improve effectiveness and competitiveness (concentration of production factors, implementation of cost strategies),
- social and economic changes of the functioning of production units in agriculture leading to the marginalization of natural and self-maintenance forms of production organization (peasants farms) to the benefit of commodity, farmer agriculture or agribusiness.

In 2002–2010 the number of farms in Poland declined by 22.4% [Raport... 2010]. Moreover, out of nearly 2.3 millions farms formally in existence in 2010, 17% were not

⁵ The definition used to-date included the following '... which, as a consequence, will lead to the increase of a personal income of a farmer and his family' [Wojewodzic 2010, 2012]. The shorter definition should be regarded as intentional, as in light of the conducted research, the increase of the personal income may be secondary, being an effect of the reallocation of the resources and cannot always be classified solely as destructive activities.

⁶ Entropy is a process that leads to a system's disintegration and collapse. From a system perspective, management's task is to continuously reinforce an organization's energy for the purpose of avoiding entropy [Kisielnicki 2001].

engaged in any agricultural activity (Table 1). Processes of abandoning agricultural activities by farmers are typical for developing countries, and the economic policy (including the agricultural one) plays an important role in the development of their speed and scope. Simultaneously, the decrease of the number of farms is accompanied by concentration of land – an average area of utilized agricultural area on Polish farms rose from 5.76 ha in 2002 to 6.82 ha in 2010.

Table 1. Farms^a in the Małopolska and Pogórze macroregion

Specification	Poland	Małopolskie Voivodeship	Podkarpackie Voivodeship	Śląskie Voivodeship	Świętokrzyskie Voivodeship
2002					
Farms in total [in thous.]	2,933.2	373.7	311.9	253.1	172.3
Farms not engaged in agricultural activities [in thous.]	755.6	113.7	75.8	119.5	43.6
Farms not engaged in agricultural activities [%]	25.8	30.4	24.3	47.2	25.3
2010					
Farms in total [in thous.]	2,277.6	283.5	261.4	163.3	141.9
Farms not engaged in agricultural activities [in thous.]	386.5	62.1	38.1	60.6	27.1
Farms not engaged in agricultural activities [%]	17.0	21.9	14.6	37.1	19.1

^aFarm means arable land, including forest lands, buildings or their parts, equipment and livestock if they are or can be a part of an organized economic whole and rights related to maintaining a farm (CSO definition).

Source: Local data bank of the CSO (www.stat.gov.pl. Accessed 17.02.2013)

In the Małopolska and Pogórze macroregion characterized by the highest agrarian fragmentation in Poland in a period between censuses, the number of farms decreased by 260 thousand, that is, following a national tendency, nearly every fourth farm was closed. At the same time nearly 188 thousand farms in the macroregion were not engaged in agricultural activities in 2010. It means that every other farm not engaged in agricultural activities in Poland is located in the southern-eastern part of Poland (the Małopolska and Pogórze region). At the same time it can be easily observed that the processes of abandoning agricultural activities occur more quickly in voivodeship that have larger economic potential where it is easier to find jobs in other sectors than in agriculture, i.e. the Małopolskie, Śląskie voivodeships [cf: Musiał 2009, Satola and Wojewodzie 2011].

The processes of destruction have also been observed with regard to livestock production. The number of farms engaged in breeding animals decreased in 2002–2010 by 408 thousand (28.1%). Nation-wide, 43.8% farms breeding cattle decided to discontinue breeding the said animals in 2002, whereas 48.1% decided to discontinue breeding dairy cows. The process of withdrawing from the production of milk and keeping cattle was to a larger extent present in the Małopolska and Pogórze macroregion where 52.7% farms decided to cease raising cattle and 55.6% – raising dairy cows. The greatest scale of the destruction in that respect was recorded in the Podkarpackie Voivodeship (Table 2). For

Table 2. A change of a number of farms keeping individual groups of livestock in 2002–2010 (%)

Specification	Poland	Małopolskie Voivodeship	Podkarpackie Voivodeship	Śląskie Voivodeship	Świętokrzyskie Voivodeship
The change of a number of farms keeping					
cattle	-43.9	-49.8	-59.6	-56.2	-45.0
cows	-48.1	-52.1	-61.1	-59.0	-51.3
swine	-47.7	-50.6	-46.4	-52.0	-49.1
horses	-49.9	-52.0	-61.4	-44.0	-64.2

Sources: Calculations based on the Local database of the CSO (www.stat.gov.pl. Last modification 17.02.2013)

economic reasons farms keeping small herds of dairy cows were unable to make investments involving the adaptation of conditions of keeping animals to increasing sanitary standards. At the same time the progressing concentration of milk production on larger farms contributed to the increase of the efficiency of cows' milk productivity. Production concentration processes can also be regarded as a manifestation of creative destruction.

The process of concentrating the production was also observed in the case of the production of swine where the number of farms keeping this group of livestock decreased by 47.8% over the period of 8 years; at the same time it was observed that an average size of a swine herd grew bigger. Considerable fluctuations of the production's profitability are a major reason for discontinuing the production of swine on farms. The Małopolska and Pogórze region did not considerably differ from the remaining parts of the country in such respect.

The process of withdrawing from the production was also clearly visible in the case of other species – the number of farms keeping horses decreased by 49.9% Poland-wide, whereas in the macroregion discussed in this paper, it dropped by 57.6%.

DESTRUCTION – A CASE STUDY

The mass statistics data prevent an accurate assessment of processes occurring on agricultural farms, quality research is also extremely difficult due to the absence of records on farms and due to farmers being considerably distrustful to interviewers. The research focusing on recessive processes encounters an additional psychological barrier as no one likes to boast of consequences of processes that may put them in a negative light. Among others, divestments, economic fall, bankruptcy, abandoning production, informal lease are often classified as such processes.

Based on the conducted interviews it was possible to determine that, in 2011, 26% of the surveyed entities had unused buildings. They were mostly buildings built for keeping livestock or multi-function farm buildings located on farms that discontinued livestock production (types C and F in Table 3). Farms that ceased agricultural activities also most often had unused machinery.

Table 3. Changes of farm potential

Specification	Types of farms ^a						Total
	A	B	C	D	E	F	
The number of farms in a group	5	6	9	14	4	12	50
The number of farms with							
unused buildings	1	1	5	0	0	8	13
unused machinery	0	3	2	2	1	8	16
The number of farms that were engaged in over the past decade							
erecting farm facilities	1	0	4	5	0	0	10
converting buildings for other purposes	3	3	4	1	1	3	15
demolishing buildings	0	0	0	2	0	2	4
purchasing the machinery produced after 2000	4	5	4	5	3	0	21
selling the machinery	2	2	3	5	2	8	22
The number of farms planning over the coming decade							
to build farm buildings	2	3	2	2	1	1	21
to purchase the machinery	4	5	3	5	2	2	21

^aA – farms that withdrew from the production of swine and focused on breeding cattle, B – farms that withdrew from the production of cattle and focused on breeding swine, C – farms that withdrew from animal production, D – farms whose owners are engaged in non-agricultural business activities, E – farms whose owners are engaged in agribusiness, F – farms of persons who abandoned agricultural activities or limited them considerably.

Source: Own study.

Selling and purchasing fixed assets should be treated as a natural process aimed at keeping up farms' production potential (reproduction). It is alarming that no building used for breeding livestock was built over the past decade on either of the farms being surveyed. The buildings erected during that period are mostly garages (7 farms), and in individual cases: a shelter, a silo, a multiple-purpose building. The purpose of converting buildings was also to transform them into garages or fuel yards of e.g. fuel wood. In the case of the farms changing their livestock production profile (types A and B, accordingly to Table 3), the buildings were converted from piggery into a building for cattle (twice) and vice versa (twice). Sporadically, farm buildings were demolished or liquidated. Regarding the surveyed farms, in two out of four instances buildings were demolished due to a fire. Only some farms decided to renew their machinery park: 30% of the surveyed farms purchased the machinery manufactured after 2000, 16% sold and purchased the machinery, 18% only sold the machinery and, with regard to remaining farms, no changes were recorded. Respondents' wish lists included mostly tractors (6), combined cultivators (3), grain drills (2), bale silage wrapper (2), trailers (4). A part of the planned purchases is not directly related to typical agricultural activities, e.g. purchases of construction machinery. Based on the observations, destructive activities may be both a stage of the economic fall, transformation into non-agricultural entities and specialization of farms.

SUMMARY

The topic is very up-to-date and progressive due to the intensification of destructive processes in agriculture affecting both the entities discontinuing their activities and those that have been developing. The processes, however, differ in regard of their genesis,

direction, speed and economic consequences. Creative destruction is an unavoidable, yet needed process in the Polish agriculture if it wants to face up to competition from abroad.

The presented analyses will help describe in a more detailed way the concept of the divestments, stressing their planned and intentional nature and depth of the occurring destructive changes leading to releasing the resources, the release of which does not lead to wasting them (actual or transformational destruction).

The presented results of the quality research indicate that the destruction on the surveyed farms is quite advanced, however, in the majority of cases the occurring changes can be classified as divestments. Transformations leading to production specialization are characteristic for divestments, i.e. concentration on cattle production (type A farms) or swine production (type B farms) as well as withdrawing from animal production to increase the scale of plant production (a portion of type C farms). Also, certain activities on farms changing their production profile (types D and E) can be regarded as divestments provided that the released resources are adjusted to be used as part of other activities or for families' living needs, e.g. converting farm buildings into garages. The absence of records on such farms makes it impossible to determine whether the observed changes were intentional and resulted from an economic calculation.

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DYWESTYCJE A UPADEK EKONOMICZNY GOSPODARSTW – PRÓBA ROZGRANICZENIA TERMINOLOGICZNEGO

Streszczenie. Procesy destrukcji są słabo rozpoznane w odniesieniu do specyficznych podmiotów gospodarczych, jakimi są gospodarstwa rolnicze. Celem opracowania była próba terminologicznego rozgraniczenia między pojęciami: dywestycje oraz upadek ekonomiczny gospodarstw rolniczych. Rozważania teoretyczne zilustrowano danymi statystyki masowej pokazującymi skalę rezygnacji gospodarstw rolniczych w Polsce z działalności rolniczej oraz wynikami badań jakościowych przeprowadzonych wśród 50 właścicieli ziemi z województwa podkarpackiego. Prezentowane rozważania pozwoliły doprecyzować pojęcie dywestycji, podkreślając zakres i trwałość dokonywanych zmian destrukcyjnych oraz ich planowy i celowy charakter.

Słowa kluczowe: destrukcja, dywestycje, gospodarstwo rolne, upadek ekonomiczny

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