

PRODUCTION DIVESTMENTS ON FARMS – ESSENCE, SCOPE, CONSEQUENCES

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Abstract. The purpose of the paper is to identify changes occurring on farms in relation to the limitation of their production activities. Considerable attention was paid to changes affecting the scale and organization of livestock production in regard of which recessive phenomena have been particularly visible in recent years. Observed at the beginning of the 21st century process of withdrawing Polish farmers from agricultural production should be considered a sign of structural change in agriculture. Farmers' abandonment of livestock production can be both a transitional stage of resigning from agricultural activities (palliative divestments) as well an initial stage for the farm's re-organization (repositioning, reconcentration).

Key words: divestments, farms, economic decline

INTRODUCTION

Processes of periodical limitation of production as well as liquidating business entities (including farms) constitute an integral element of economic processes described in, among other things, a theory of business cycles [Estey 1959, Snowdon 1998, Płonka and Musiał 2012]. However, intensification of the phenomenon of permanent withdrawal by farms from agricultural activities observed in Poland in the first decade of the 21st century should be considered as an important manifestation of structural changes in agriculture. Restructuring of agriculture is currently determined by three major global trends [Gołaś and Kozera 2003]:

- the relative and absolute decrease of production potential engaged in the production of food, disparaging social and economic importance of agriculture in the national economy;

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- a constant pressure to concentrate a volume of production factors and changes in their structure, forcing the implementation of cost strategies and at the same time the increase of effectiveness and competitiveness;
- social and economic changes of the functioning of production units in agriculture leading to the marginalization of natural and subsistence forms of the organization of production to the benefit of commodity farming, farmer agriculture and agribusiness.

Changes of the agrarian structure are unavoidable; however, given the conditions of the considerable fragmentation of the Polish agriculture it is important that the processes of limiting agricultural activities and closing farms should not be dominated by forced economic collapses without any alternatives. Transformation processes should be conducted in a planned manner, helping improve living conditions of village inhabitants. Only then they will become a decent basis for the permanent development of agriculture as an important sector of the Polish economy.

The intensification of the processes of limiting the production in the first decade of the 21st century by a numerous group of farms in Poland is favorable to increased interest in theories describing recessive behaviors of business entities, including the theory of divestments. The purpose of the paper is to identify changes occurring on farms in relation to the limitation of their production activities. Considerable attention was paid to changes affecting the scale and organization of livestock production in regard of which recessive phenomena have been particularly visible in recent years.

MATERIAL AND METHODS

Many years of observations of farms in the southern and eastern Poland contributed to adapting, for descriptive purpose, occurring processes as part of a concept of a divestment. More on the topic can be found in studies by: Lovejoy [1971], Boddewyn [1976], Osbert-Pociecha [1998] and Wojewodziec [2011], which is familiar in economics of enterprises and management theory processes. Divestments on farms should be interpreted as processes involving “planned and deliberate limitation of agricultural production and/or allocation of resources of a farmer’s household to the farm’s production activity that leads to the release of resources of land, labor and capital which may be utilized as part of a different agricultural or non-agricultural activity” [Wojewodziec 2010]. The divestments can be both related to resources (limiting the resources of land, labor and capital used for farming) and/or production (the extensification of production, resigning from selected production activities, limiting or discontinuing production). In extreme circumstances divestments may involve farm liquidation through tenancy, sale or acquisition by a more powerful entity in economic terms.

As part of the research conducted in 2011–2013 a few research methods were used simultaneously: studies of reference books and secondary materials, including mass statistics data: the Central Statistical Office (GUS), the Agency for Restructuring and Modernization of Agriculture (ARiMR) and the Farm Accountancy Data Network (FADN), interviews (175 farms) and participant observations (among farms with owners personally known to researchers). The interviews were conducted on farms of the

Małopolska and Pogórze macroregion (The Małopolskie, Podkarpackie, Śląskie and Świętokrzyskie Voivodeships)¹.

RESULTS AND DISCUSSION

Over a short period of time the scale and structure of production on commodity farms have been determined by two major factors: market demand and farm's resources. In the long run the importance of signals from the market was decisive. The process of withdrawing from certain production activities by farms may be either temporary or permanent in nature. If the changes are planned and permanent and are assumed to help improve the economic standing of a farming family, they can be classified as production divestments. The improvement of the economic situation of the farming family results from the improvement of the farm's financial performance or the increase of out-of-farm income. Hence the divestment's indirect purpose can be:

- resigning from an activity that generates a negative direct surplus, without engaging the released resources in a different activity;
- reallocating the resources within the farm (from an activity characterized by lower economic effectiveness to that of higher effectiveness);
- withdrawing the resources from production on a farm and engaging them outside the farm [Wojewodziec and Mikołajczyk 2011];
- resigning from agricultural activity and preparing the resources or the entire farm for the change in ownership (or winding-up).

The divestments can take the form of anticipatory measures which help improve the effectiveness of the operations of a business entity (anticipatory divestments) or can become indirect stages leading to its liquidation (palliative divestments). The former very frequently become a part of the repositioning or re-concentration process. As indicated by Decker and van der Valden [2006], repositioning involves the change of core activities, whereas re-concentration consists in resignation from peripheral activities to the benefit of core activities (Fig. 1).

Thanks to the production potential the Polish agriculture ranks in the lead among European countries. Poland (in 2010) is one of the greatest producers of rye (the 2nd position), oat (the 3rd position), apples (the 5th position), potatoes (the 7th position) and sugar beet (the 7th position) in the world. Despite a considerable regress as regards the stock of animals, it produces 1.3% of meat (the 15th position) and 2% of milk (the 12th position) in the world [GUS 2013]. In 2010 farms in Poland utilized more than 15 million ha of agricultural land and more than 4 million people were engaged in farming, including nearly 2.3 million employed solely or mainly in agriculture [GUS 2012]. Over the last decade structural transformations have been clearly visible in agriculture. On the one hand, the process of the withdrawal of owners of small- and medium-sized farms from agricultural activities has accelerated. On the other hand, the current form of the European Union's agricultural policy, including area payments, prevents the real transfer of land between

¹ Selection of the farms (sample of farms) was determined by the scope of the research and financial possibilities.

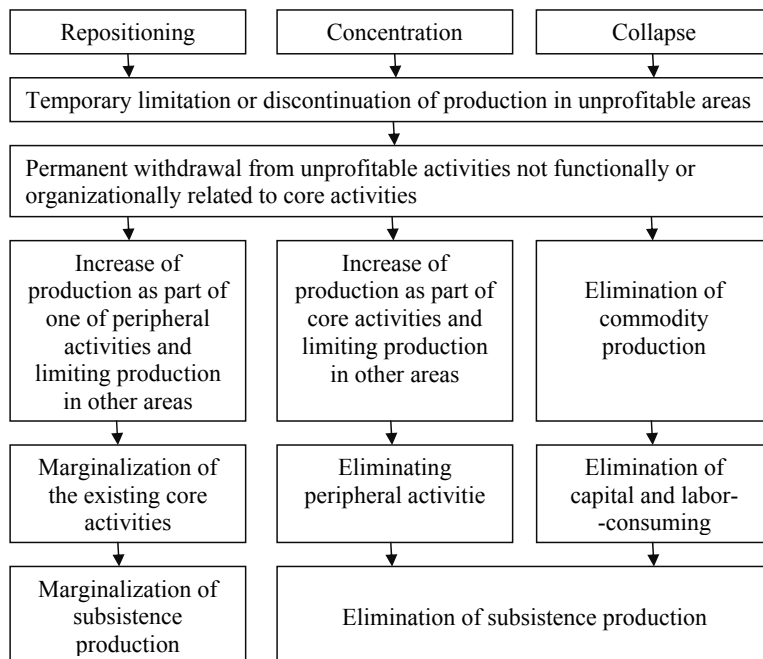


Fig. 1. Processes of eliminating production activities on a commodity farm

Source: Wojewodziec and Mikołajczyk 2011.

farms, contributing to the existence of informal sales of land in the form of rent-free lending for use or tenancy without a written agreement (area payments are frequently kept by the owner and the user does not have to pay the rent under tenancy). As a result the processes of concentrating the production occur faster than concentration of land. In 2002–2010 the number of farms in Poland dropped to 2.3 m (a decline by 22.4%). Additionally 17% of farms taking part in the agricultural census (2010) were not engaged in agricultural activities and 37.1% of farms were only engaged in plant production. Despite such changes, the average area of a farm engaged in agricultural activity is still very small, totaling nearly 8 ha of arable land.

The change of economic conditions of farming and enhanced sanitary conditions (along with milk production limits) contributed to the liquidation of small herds of animals to the greatest extent with regard to which the compliance with new requirements was frequently unreasonable in economic terms. Moreover, the phenomenon of dual-occupation of land owners common in regions with a fragmented agrarian structure made it more difficult to combine working on a farm with outside farm work. The 2010 agricultural census showed that from the perspective of the preceding eight years, the number of agricultural farms engaged in raising livestock decreased by 408 (28.1%). Share of 43.8% of farms keeping cattle resigned from raising it whereas 48.1% resigned from raising dairy cows. At the same time the concentration of milk production on larger farms occurred which strengthened the process of the increase of dairy cows' effectiveness.

The process of withdrawing from livestock production was also clearly noticeable in the case of other species. The number of farms keeping horses declined by 49.9% and the number of farms keeping sheep by 28.6%. Also in this case the decrease of the stock of farm animals occurred slower than the decline of the number of herds which implies the present process of production concentration [Wojewodzic 2011].

The processes of the withdrawal from livestock production by owners of farms are also noticeable in the group of commodity farms. The analysis of the production of farms functioning in the Polish FADN in 2004–2009 uninterruptedly showed that the group of farms keeping sheep declined by nearly 1/3. A higher percentage of farms resigning from a given activity was recorded only in the case of poultry – this activity was discontinued by 48% of farms. Milk production was discontinued by every sixth farm (17.3%) and swine was no longer raised by every fourth farm (24.4%). Due to resigning from keeping the livestock by subsequent farms, the share of farms without animal production in the surveyed sample rose from 13.7% in 2004 to 18.6% in 2009 [Wojewodzic and Mikołajczyk 2011].

Statistical data prevent the identification of reasons and consequences of production limitation processes. To evaluate the process, the interviews and participant observations were applied. The surveyed farms' structure area was dominated by entities of a small area, an average size of the farm totaled 6.9 ha, and only every sixth farm's area exceeded 10 ha of own land. Regarding the structure of the surveyed farms, typically of that area the largest group consisted of farms for which agricultural income is only a supplement to the incomes earned from other sources (Table 1).

The research showed that the processes of withdrawing from agricultural production in the surveyed population of farms intensified. The importance of incomes earned from agriculture continues to decline. In 2000 the incomes from agriculture were regarded as a major or only source of incomes by 44% of farms, however, in 2011 the above was true only with regard to 28% of farms. On farms which earned their incomes mostly from outside farm work, much fewer investments were made in tractors, agricultural machinery and buildings for agricultural production whereas the investments related to families' living conditions occurred more frequently (e.g. garages, shelters). In the entire surveyed population only two storage rooms, one barn, three warehouses and one drying room were erected. The investments related to agricultural activity mostly pertain to farms that see their future in agriculture and for whom incomes from agriculture constitute an important source of incomes.

Reasons for owners' declining interest in continuing to be engaged in agricultural activity can be mostly ascribed to economic and cultural factors which is also confirmed by respondents' opinions (respondents could indicate three most important reasons in his/her opinion): a low production profitability (71.2%), absence of successors (75%), difficulties with reconciling working in agriculture with employment outside a farm (30.4%).

The entities with non-agricultural sources of incomes withdraw from agricultural activities in the first place (Table 2) – for them work on a farm is very frequently an alternative cost to working outside the farm. More and more frequently the nature of work outside farms (seasonal work, work outside the place of residence etc.) conflicts with agricultural activities where individual works and procedures must be performed at an appropriate time of the day and year.

Table 1. Changes in the resources of means of production of the surveyed population of farms

Items	Households for which agriculture in 2000 accounted for				Total
	100%	50–99%	10–50%	<10%	
	of incomes				
The structure of surveyed farms (%)	22.3	21.7	40.0	16.0	100.0
An average area of own land on a farm in 2000 (ha)	8.7	8.1	6.0	4.7	6.9
The share of farms increasing the resources of own land after 2000 (%)	31.3	21.1	11.4	14.3	18.9
The share of farms decreasing the resources of own land after 2000 (%)	7.7	34.2	27.1	10.7	21.7
The share of farms engaged in construction investments ^a after 2000 (%)	12.8	18.4	7.1	32.1	14.9
The share of farms converting farm buildings for non-farm purposes after 2000 (%)	23.1	13.2	22.9	7.1	18.3
The share of farms converting farm buildings for farm purposes after 2000 (%)	33.3	18.4	8.6	0.0	15.4
The share of farms without a farm tractor in 2011 (%)	2.6	0.0	17.1	39.3	13.1
The share of farms with a farm tractor manufactured after 2000 (%)	38.5	31.6	11.4	3.6	20.6
The share of farms with machinery manufactured after 2000 (%)	66.7	47.4	25.7	21.4	38.9

^aExcluding residential buildings.

Source: Own study.

Table 2. Changes in the production scale in 2000–2011

Item	Households for which agriculture in 2000 accounted for				Total
	100%	50–99%	10–50%	<10%	
	of incomes				
The share of farms without livestock production ^a in 2000 (%)	10.3	15.8	18.6	17.9	16.0
The share of farms performing anticipatory divestments as part of livestock production ^b (%)	41.0	23.7	12.9	0.0	19.4
The share of farms resigning from livestock production ^c after 2000 (%)	12.8	18.4	41.4	53.6	32.6
The share of farms resigning from agricultural production ^d after 2000 (%)	2.6	7.9	15.7	28.6	13.1

^aThe animal stock below 0.1 of livestock unit (LU); ^bliquidation of swine or cattle and increase of the stock in an alternative group; ^cresigning from livestock production or limiting livestock production below 0.1 of livestock unit (LU); ^dthe crop area below 0.2 ha and livestock below 0.1 of livestock unit (LU).

Source: Own study.

A definite majority of respondents (about 80%) regarded the decision to discontinue agricultural activities as the right one, the others have difficulties with a clear evaluation of the circumstances. Major benefits which the respondents listed in relation to limiting agricultural production to plant production and complete resignation from agricultural activities included:

- more time for other ventures (leisure time, for families, for work outside farms);
- the improved looks of the environment, getting rid of unpleasant smells;
- improved material conditions in relation to the reallocation of labor force resources;
- reduced emotional (stress) and physical effort (improved health);
- increased mobility, the possibility of going away on a holiday or to work abroad;
- better life quality.

Sporadically elements were indicated which the respondents regretted such as:

- wasting accomplishments of many generations working hard on a farm;
- abandoning family traditions;
- the loss of opportunities for earning an additional income and area payments;
- limited access to own healthy food and necessity of shopping for food of unknown origin.

Anticipatory divestments with regard to livestock production should be regarded as a symptom of production specialization, therefore, they mostly relate to farms which see their future in continuing agricultural production. The main reasons for resigning from raising cattle or swine included: the reallocation of resources from a less profitable activity to a more profitable one, improving work organization, the necessity of complying with sanitary requirements in the area of the production in progress.

CONCLUSIONS

Farmers' abandonment of livestock production can be both a transitional stage of resigning from agricultural activities (palliative divestments) as well an initial stage for the farm's re-organization (repositioning, re-concentration). The research conducted shows great intensification of the processes of owners of land in Poland abandoning agricultural activities in the first decade of the 21st century. The above-mentioned phenomenon is supported by both mass statistics data (GUS) and the presented research results.

The phenomenon characteristic of a major portion of farms is withdrawing from raising animals. The main reasons behind such divestments performed by farmers are undoubtedly economic factors resulting from deteriorating production profitability, especially with regard to the production in small herds. Also labor consumption and the necessity of daily provision of such work as part of the production play an important role as they make it difficult to work outside the farms. There are reasons based on which it could be said that the scale of the phenomenon of the withdrawal from agricultural activities by land owners, including raising livestock, could be higher had it not been for area payments, farm families' attachment to tradition and healthy food.

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DYWESTYCJE PRODUKCYJNE W GOSPODARSTWACH ROLNICZYCH – ISTOTA, ZAKRES, KONSEKWENCJE

Streszczenie. Celem opracowania jest identyfikacja zmian zachodzących w gospodarstwach rolniczych w związku z ograniczaniem ich aktywności produkcyjnej. Dużą uwagę poświęcono zmianom w skali i organizacji produkcji zwierzęcej, w której zjawiska recesywne są w ostatnich latach szczególnie widoczne. Obserwowane na początku XXI wieku procesy wycofywania się rolników w Polsce z produkcji rolniczej należy uznać za przejaw zmian strukturalnych w rolnictwie. Odchodzenie rolników od prowadzenia produkcji zwierzęcej może być zarówno etapem pośrednim rezygnacji z działalności rolniczej (dywestycji paliatywnych), jak również etapem wstępnym reorganizacji gospodarstwa (repozycjonowanie, rekoncepcja).

Słowa kluczowe: dywestycje, gospodarstwo rolne, upadek ekonomiczny

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