



FUTURE 2002

ZARZĄDZANIE PRZYSZŁOŚCIĄ PRZEDSIĘBIORSTWA

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z prośbą o życiowe
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WYDZIAŁ EKONOMICZNY
ZAKŁAD EKONOMIKI JAKOŚCI I ZARZĄDZANIA WIEDZĄ

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ENTREPRENEURSHIP AND DEVELOPMENT OF INDIVIDUAL FARM HOUSEHOLDS

A notion „entrepreneurship” is known since the 13th century. According to the Rober's Dictionary an entrepreneur is „a person, who manages the enterprise, has her own account, using various factors of production (natural resources, labor, capital) with purpose of selling goods or providing services”. Entrepreneurs are „farm households, agrarians, businessmen, manufacturers, including small-artisans and other of trade outlets”. But employees, officials and others were not included into the entrepreneurs group at that time, because they received salary for their work. It wasn't until the 18th century that an entrepreneur had been identified with innovation, inventiveness, refinement and other features and characteristics a modern entrepreneur possesses. An English economist R. Kanfalion applied the term „entrepreneur” to define a person with changing incomes.

Entrepreneurship as a special kind of business activity can effectively function in terms of market relations, because they provide freedom of directions and methods of farming, independent decisions and financial strategy inherent to one or another kind of enterprise activity. The establishment of market conditions is impossible without development of business-like activities.

According to the existing legislation entrepreneurship is an independent initiative activity realized at one's own risk, taking upon oneself (legal entity or individual) property responsibility and focused on receiving of income (profit) from using, sallying goods, providing services.

In its turn business – is an initiative economic activity, realized with personal or borrowed means, at one's own risk and taking upon oneself the responsibility, focused on obtaining the profit and further development. Entrepreneurship activity in agriculture is only possible with taking into account the structure of agrarian and industrial production and economic interrelations that were formed in it in the course of its existence. Specific character of farm production has stipulated practical invariability of basic types of organizational structures in agrarian industrial sector, irrespective of production forces development level in the country and socio-political structure.

According to this peculiarity all the existing types of farm entrepreneurship may be relatively divided into four main groups:

- the first group is characterized by the minimum or zero level of socialization of labor and capital. This is either the organization of small farm production (individual farm households), or arranging farm owners with a minimum number of the participants (a private enterprise without establishment of legal entity, a small farm). During the Soviet period individual farms instead of state support had to pay higher tax rates and they were almost wiped out because of that fact. The market reforms gave a new development impulse to form of farm business, as private farming. In spite of the fact that by the 1st of January, 2001 the number of officially registered farms was about 38,400, a share of agricultural products produced by them was still insignificant and made in 2000 1.8%. Compare: the same year individual farm households produced 64.6% of gross product.

- the other group well-known in the world practice is called a company or partnership. To this kind of entrepreneurship in home practice corresponds organization of farm producers in the form of limited liability companies. The basic difference of such enterprises is partial socialization of producers' property and responsibility under the obligations within the limits of this property cost. Production cooperatives are also included into this category. They differ from limited liability companies by some formal organizational features and by measure of responsibility. A lot of agrarian economists consider this type of entrepreneurship most typical and viable for Ukraine's farming.

- the third group - a joint-stock company or corporation. The use of the given type of entrepreneurship activity in agriculture is a relatively new phenomenon.

A Joint-stock company or corporation differs from partnership by the character of capital unification and by corporation member's participation in production and management activity. One can this form of productions socialization a rather applicable for farm enterprising neither fractionally nor practically.

The main drawback here is alienation of producer from the process and results of his/her work that highly reduces motivation and negatively influences both the efficiency of work and the quality of administrative decisions. The positive factor of joint-stock companies formation on the basis of former collective farms and state farms is the opportunity of attraction of additional financial resources from an unlimited number of legal entities and individuals. Although investors aren't confident as for receiving dividends from the money they had put into agrarian sector, because of negative influence of objective factors and rather low profitability of farm production. All this makes the realization of the latter factor impracticable. Therefore this type of entrepreneurship activities made up by state and municipal enterprises. The participation of state or municipal bodies of self-governing in the authorized capital of organization is not decisive factor under home conditions, but origin and character of property ownership is important.

From above-given classification it's visible that the greatest part of gross product in Ukraine is made by individual farm households. But whether it's possible to imply them as a whole to entrepreneurship? Only a small part of private farm households bear mainly marketable character. The analysis shows that in private

farm households, that are representing the largest proportion in production of such important products as milk and meat (in 2000 – 67% and 74 in gross production of these products), the marketability of milk made 18% and of meat 12.6%. In 1991 the given figures reached accordingly 26 and 33%. The average size of individual farm households is 0.36 hectares.

The farm private sector includes farms of different kind of property. However, a small number of large private farms, which produce significant amount of products, plays an important role in each country. As a whole 10–15% of the large farms in Western Europe produce more than 45–55% of farm products. So, as the experience proves, large farm enterprises have more advantages. Unfortunately, large private farms only start to be created.

So, we may conclude that it is necessary to strengthen entrepreneurship character of private farms, to enlarge their size and therefore the volumes of production first of all of marketable products.

Most of private farms have no possibility to be involved in entrepreneurship activity because of a series of causes. They are: lack of time necessary for sale of farm products, lack of special transport, the remoteness from products' selling places, etc. These problems can be solved by vertical integration, which will allow to increase farmers' profits, contribute to rapid market entering, besides it will reduce the number of intermediates, that are between a producer and a consumer.

The vertical integration implies the integration of farmers' efforts in order to enter the fields of activity that are closely related to farm production. That will allow them to control the movement of farm products and to receive appropriate profit. It foresees the establishment of farm cooperatives by separating of some functions from farm enterprises, farms, private farms households in order to organize them in a large scale. Small farm production has spontaneous, unorganized character, because it is motivated by its own needs and is not influenced by market demands. That's why it is often subjected to selfdependence, the state deals with farm producers from the point of view of small costs and low prices. Small farm production is also characterized by technical backwardness of production management, low farm work productivity, difficulties with products selling, very small markets for sale, disadvantage of the sale terms because of intermediaries. The weak integration and cooperation, absence of market infrastructure on serving small farm producers also take place. Establishment of cooperatives for farm service can solve the majority of state-above problems.

Sale cooperatives selling farm products are historically first and the most widespread form of farm serving cooperatives today. Establishment of sale cooperatives allows the owners of private farm households and other farm producers to form large and classified batches of products, to pack, to store, to take products from remote populated areas, and to use advertising and etc. Thanks to sale cooperatives farm producers can also trace the products from the moment of their production till their consuming, get information about different intermediaries' margin, and about the requirements of processes of trade organizations to the products.

Hence, individual farm households irrespectively of their size and without loss of their independence get an opportunity to complete again commercial intermediaries at the market of farm products and keep the larger part of profits. That will speed up the development of entrepreneur activity of individual farm households and in the long run it will allow to enlarge their size and to transform some of them into large private households.

The establishment of selling, storing and processing of service cooperatives will be effective only if they study the market, i.e. marketing. The marketing implies an integrated economic system, directed on the providing of maximum sale of products, the achievement of high efficiency of production and expansion of market share. Farm marketing is bringing the farm product up to the final customer.

It includes purchasing, storage, transportation, processing and distribution of products.

- A special feature of marketing in farm sale cooperative on one hand acts as producer in case when it sells farm products. On the other hand cooperative applies a certain marketing policy as for its members, which is mainly realized through the strategy of price formation. It may be concluded that there are two types of sale servicing cooperative marketing:

- the sale marketing;
- the marketing concerning farm producers.

The sale marketing is most widely used. In countries with developed cooperative sector the market activity organization for farm cooperatives is in reaching profit (level) increase for their member at the account of meeting all the requirements of their products' consumers. With the help of professional managerial stuff of a cooperative its members study their customers, influence their opinions and motives, create the consumer-oriented marketing complex.

The marketing complex consists of 4 elements: a product, price, distribution and promotion. These elements are known as „marketing mix.“ The skill to mix the elements of marketing for solving a practical task is a basic of marketing. The special features of marketing activity of selling, storing and processing and servicing cooperatives are mostly displayed through the trade and price policy.

The work of farm cooperatives is efficient when products or services produced and sold with their help, are demanded at the appropriate market. In this case the product policy is a nuclear of marketing decisions, with which other decisions, connected with the conditions of purchasing the product and methods of its promotion from a producer to a consumer, are formed. Storing and selling, and processing cooperatives in their business activity at farm raw materials and foodstuff market may use trade policy, which isn't very different from marketing policy of private enterprises.

In cooperatives the pricing policy corresponds to the above-mentioned types of marketing. As for its members a cooperative uses and imperfect marketing approach that almost excludes the rest of elements of marketing complex. This approach is mostly displayed in the principles of price differentiation, and the main point of

which is in introduction the discounts and extra charges to cooperative services price. For example, the storing and selling cooperative „Agro-Picarde” (France) is mostly engaged in storing and selling the corn produced by members as well as in mixed fodder and herbicides supply, applying and transporting fertilizers, when supplying the material and technical resources a cooperative provides price discounts to its members, differentiating them according to the following criteria:

- great volume of material and technical resources purchased by a cooperative;
- the principle of a complex purchasing;
- the criterion of purchase intensity;
- use of consulting service;
- use of cooperative members' own transport for delivering fertilizers to a farm household;
- purchasing the material and technical means during the off-season.

A member of the cooperative, whose activity meets these criteria better has an opportunity to get higher price discounts on material and technical means. To stimulate farm producers to participate in „Agro-Pikarde” cooperatives activity, the marketing approach in the form of extra charges according to the following criteria is applied:

- farmers own corn storages, availability;
- farm producers use the seeds purchased the cooperative;
- farmers provide leading, discharging and transport, etc.

In the activity of „Agro-Pikardi” cooperative a special price policy is applied. In our opinion, the serving sale cooperatives in Ukraine should apply the identical rate of discounts or extra charges to a preliminary price in accounts with their members, especially with owners of individual farm households. It will diminish the risk of conflict situations between cooperative members at the first stage of cooperative activity.

Also processing and store cooperatives, which are interested in a profitable selling of the products, produced by their members, can pursue the pricing policy in its original form. There are two main types of price policy:

- either a cooperative sells its products at a high price, that gives it a significant level of the margin per a unit of produce, which compensates definite volumes of sale;

- or a cooperative sells at a low price, that gives it a low level of margin per a unit of produce, but it is compensated by significant volume of sale.

The first type of price policy can be applied by cooperatives having their own capacities for storage of their member' product. In this case they can sell products on behalf of their members, when the price is more favorable. Such a price policy corresponds to the strategy of differentiation. It can be also applied by cooperatives processing the products produced by the members in their farm households, and selling them in processed form, i.e. by processing cooperatives.

Store-sale cooperatives have an opportunity to a form a large batch of products from small deliveries by the cooperative members and sell it without intermedia-

ries at a competitive price. Under these conditions the transportation, store and sale expenses of a farm produce are reduced. A cooperative can apply another kind and of price policy, that corresponds to the strategy of competitiveness due to expenses reduction. In our opinion, this very kind of a price policy meets the requirements of private farm households best of all.

Thus, for the renovation of an agrarian sector, for reorganization of individual farm households into high – productive once, it's necessary to admit the objectivity of establishment of servicing cooperatives, especially sale cooperatives. Also it's necessary to admit the leading role of marketing processes here, the main objective of which is effective activity both at the home market and in long run at the international markets.

Summary

The core of business and the basic types of the agricultural business organizing are covered in this article. As the subsistent farms are the main agricultural producers at the present in Ukraine, it is analyzed the outlook for the agricultural business development in this kind of enterprises.

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