

COMPANY DEVELOPMENT AND POLISH INTEGRATION WITHIN THE EU –EXAMPLIFIED BY ANALYSIS OF THE AGRI-FOOD INDUSTRY IN THE VOIVODSHIP OF ŁÓDŹ

Radosław Agaciak
University of Lodz
Department of Macroeconomics

Abstract

This paper attempts to assess the effort to develop agri-food sector companies in the Voivodship of Lodz between 1998 and 2012. It was based on data of production dynamics and scale of investment, financed mainly through EU pre-accession and structural funds. Initially, during this period, the agri-food industry in Lodz, after its systemic transformation, found itself in a state of recession. Despite this, the financing of investment through EU funds (from the SAPARD Programme and the structural funds, ‘Improvement of Processing and Marketing of the Agri-food Sector’ within SPO 2004-2006 and the activities ‘Increasing Basic Value Added of Agri and Forestry Production’) had a positive impact on the adjustment of the agro-food sector to the homogenous market of the EU within adherence to sanitary, hygienic and quality standards. The implemented investments in this sector boosted the level of company advancement, even though it was innovation based on imitation, through which companies implemented modern solutions and technologies previously applied by companies from the EU-15, it still enabled the achievement of technical advancement close to the EU leaders.

Key words: Company development, EU integration

Introduction

The aim of this paper is to attempt to assess EU structural fund utilisation for agri-food companies. The analysis focuses on companies located within the Voivodship of Lodz, which, between 2003 and 2012, received financial aid within the Common Agricultural Policy. Analysis is of the structure of the utilisation of the pre-accession funds within the SAPARD Operation Programme, Sectoral Operational Programme ‘Restructuring and Modernisation of the Food Sector and Rural Development’ (SPO 2004-2006) and the Rural Development Programme (2007-2013).

The work consist of five parts, the first being a theoretical overview of the issue of company development while the second presents the description of company circumstances during the pre-accession period. The

later parts provide information on the pre-accession resources allocated for companies of the agri-food sector, from which the companies benefitted from the 30th April 2004 as well as through EU structural funds. These parts describe the overall investment trends of companies from the Voivodship of Lodz and compare them to companies throughout Poland. The fifth part refers to the state of companies after the first few years of accession and the effects of the implemented investments. The article is summed up including conclusions on the last decade of the obtained financial aid.

Company development and investment financing

A company's development, along with other factors, affects survival over the long term. One can assume that apart from maximising profit this is the ultimate goal of companies. Development falls into qualitative and interdisciplinary categories which escape direct quantification and operationalisation. Despite the fact that company development is affected by a variety of factors, it is profit that is the basic source of financing development. In parallel, development is one of the conditions that determine a company's profits [Duraj, 2000].

Z. Pierśionek claims that company development is foremostly qualitative and entails the introduction of product, process and structural innovations as well as organisational and management innovation [Pierśionek, 1996]. A similar standpoint is maintained by A. Stabryła who perceives development as quality changes viewed positively from the perspective of the aim they refer to [Stabryła, 2006]. J. Penc presents a wider definition of company development and also accentuates the necessity of quality change. He believes that the quantitative growth of a company requires the introduction of quality changes, for example of an organisational or technical nature [Penc, 1997]. The need for development is closely connected with changes in a company's environment, which constantly affects it [Pierśionek, 1996]. In their operations, companies may utilise various factors to boost development. These factors, highlighted in the range of phenomena as tangible constituents, are perceived as a cause or condition of the development process [Matejun, 2008]. External factors include, among others, regulations of the financial and tax system which impact on the capability for capital accumulation indispensable to finance current operations and development, as well as stimulation by the state, accumulation of resources for investment, development and export promotion purposes [Matejun, 2008]. Other significant factors for company development include financial and non-financial state support as well as access to banking and insurance

services, thanks to which companies can obtain financial resources indispensable for investment for change.

The development of small and medium-sized companies depends to a large extent on a company's development capital. The need for a high proportion from a company's own resources in investment financing stems from having limited access to foreign capital. A company operating on the market should develop its operational strategy to facilitate long term development. An indispensable element of such a strategy is the ability to implement investment, which raises the problem of financing [Bagieńska, 2008]. The development of Polish companies is currently determined mainly by the socio-economic principles of Poland, which, as an EU member state, is obliged to implement the community's development targets. This originates from the advancing globalisation of the World's economy and the rapid acceleration of its growth [Bagieńska, 2008].

The condition of agri-food sector companies before Poland's entry to the EU

Agri-food companies, after the transformation of the Polish system, found themselves in dire circumstances. Between 1999 and 2002 the consumption rate of food, beverages and tobacco products decreased from 3.20% to 1.18%, which is more than half. "The expenditure on capital assets in 2001 were reduced by 10.2%. The share of investment expenditure of GDP was reduced from 20.5% in 1998 to 17% in 2001. The real value of investment expenditure fell by 10%. Such a situation was clearly evident in the food industry, as its share of total investment expenditure fell by 1 percentage point" (Knap-Stefaniuk, 2010). The transformation in the structure of ownership which occurred in the second half of the 1990s led to the sale of the assets of a number of state companies and the appearance of private firms which started to develop their future production potential. This was also the time when previously successful state companies ceased to exist, unable to withstand the competition in the harsh market reality [Tarajkowski, 2008]. This transformation gave rise to companies which were underinvested and equipped with obsolete production machinery. With such resources, they had to face competition from the West in the fields of quality, price and production economics. This battle was frequently lost owing to the lack of financial resources indispensable to carry out production investment [Bagieńska, 2008].

Poor product quality, especially in comparison to the competition from the West, the lack of adequate logistics and modern marketing tools resulted in a reduction in product demand [Sapijaszka, 1997]. This reduced

utilisation of production resources and a lack of prospects for an improvement in this trend led to the closure of a significant number of companies. Boards of directors attempted to change such states of affairs but they failed in this matter due to a lack of funding and the inefficient investment credit system. From 1994, the possibility existed to obtain interest subsidies for both investment and working capital granted by the banks cooperating with the Agency for Restructuring and Modernisation of Agriculture, nevertheless this type of aid turned out to be insufficient as the banks which companies turned to for loans demanded guarantees which the companies could not provide and the high cost of loans meant investment through these funds ceased to be profitable [Bagieńska, 2008]. This in turn triggered stagnation among Polish producers and contributed to many spectacular downfalls.

Pre-accession resources for agri-food sector companies - SAPARD

Investment saw some positive trends at the beginning of 2000 thanks to the SAPARD Operational Programme, which is an EU funding programme supporting agricultural adjustment to the market economy among affiliated countries before their entry to the EU. Its aim is to boost the competitiveness of the agriculture and agri-food processing industries on both national and international markets. The objective of the programme is also to adjust the agri-food programme to the requirements of the homogenous EU market as far as sanitary, hygienic and qualitative aspects are concerned. SAPARD facilitated the modernisation of agri-food processing companies in order for Polish companies to compete with the highly developed and well-funded companies of Western Europe.

In the case of processing companies in Lodz Voivodship, as in the whole country, paramount importance before Poland's EU entry was geared to the improvement of safety, food quality and increasing the number of companies meeting EU sanitary and veterinary requirements. The aim of the programme was to support rationalisation, restructuring and advancement in the sector to boost its competitiveness and facilitate adjustment to operate in the homogenous market. This always entails the necessity to modernise the production base. The implementation of the EU Hazard Analysis and Critical Control Points System (HACCP) led to the necessity to improve control systems and indispensable employee training. The investment also covered environmental protection within companies, rationalisation of the water and energy usage based on costs, as well as strengthening of agricultural producer groups and their associations.

The above would not have been possible without SAPARD. Although the market of financial services offered other sources indispensable for daily operations and investment, subsidies for the interest on investment loans and working capital facilities granted by the banks, credit, a company's own share in financing as well as guarantees were not highly popular due to the high cost of these services. In its first stage, SAPARD also did not enjoy great interest due to the complexity of procedures for obtaining such assistance. Gradually however, more and more companies availed of this method of investment financing as a more beneficial alternative.

From the point of view of the quality of modernisation of the whole agri-food sector, the value of SAPARD was only in subsidising investment for purchasing new machinery and devices. Thanks to this, the production base of Polish companies underwent a huge improvement, which frequently contributed to a level of technological advancement higher than in many Western companies. On the other hand, this approach made it impossible for some Polish companies to avail of this programme due to the excessive cost of investments and lack of sufficient credit worthiness.

Till the end of the programme, The Agency for Restructuring and Modernisation of Agriculture – which deals with the implementation of EU support programmes for agriculture - paid out 1,068 billion Euro (4,512 billion zloty), exceeding the amount originally allocated for SAPARD. Within Measure 1, aimed at agri-food processing companies, 70 beneficiaries from Lodz Voivodship availed of this aid. A total number of 99 contracts were signed, which translated into a total aid sum of almost 150.4 billion zloty, which was 9.04% of all contracted projects within SAPARD⁵⁸. This amount was the greatest segment of public funding of all the programme's operations within Lodz Voivodship. The contracts referred to ventures following the framework 'Support for Food Processing and Marketing Improvement of Articles of Animal Origin' whereas fruit and vegetable processing support enjoyed much lower popularity. The average amount of aid granted for signed contracts stood at 1.52 million PLN and was higher than the national average, which stood at 1.24 million PLN. Lodz Voivodship was ranked fourth in the country as far as the number of signed contracts for project co-financing after Wielkopolskie (226), Mazowieckie (147) and Śląskie (109) and third when it came to the engagement of public resources, after Wielkopolskie (278.2 million PLN) and Mazowieckie (205.7

⁵⁸ Information on SAPARD implementation, www.arimr.gov.pl.

million PLN). Out of 99 contracted projects 93 were implemented, for a total amount of 131.8 million PLN.

Investment within SOP 2004-2006 and PROW 2007-2013 – general trends

The EU aid programme which replaced SAPARD after Poland's accession to the EU was the Sectoral Operational Programme (SOP) 'Restructuring and Modernisation of the Food Industry and Development of Rural Areas for 2004-2006'. This programme continued both previously commenced and new investments for co-funding within the Common Agricultural Policy of the EU. Similarly to the pre-accession SAPARD, the programme was designed to support ventures of the rural population and companies of the agri-food sector. Measure 1.5., Co-funding of 'Improvement of Food Processing and Marketing of Agricultural Products' of priority 1 of SOP 'Support for Change and Adjustment within the Agri-food Sector' were offered to companies whose operations were in food processing and the marketing of agricultural products included in the amendments to the treaty establishing the European Union, excluding fish and forestry products and companies from countries outside the EU.

The principles of accessing this programme differed significantly from those of SAPARD, as in this case investment co-funding is conducted through the refunding of the costs met by entrepreneurs. In this case however there is a positive trend which can be observed in the market of financial services, which is the increase in attractive credit opportunities aimed at entrepreneurs from the agri-food sector. This was due to the previous positive experiences of the banks, which received the return of, on average, half of the value of the granted loans straight after the company's implementation of the investment and final calculation of costs with ARMA. Within SPO 2004-2006, the maximum amount of co-funding offered to entrepreneurs also increased and stood at 20 million PLN which was significant aid, as with SAPARD, facilitating modernisation of technological lines, a company's adjustment to sanitary and veterinary requirements and the introduction of HACCP systems across the whole country including Lodz Voivodship.

In Lodz Voivodship, 165 companies from the agri-food sector applied for financial aid for investment to the value of 331.3 million PLN. The most applications were filed in the district of Skierniewice (15), Pajęcno (14) and Eastern Lodz (13), the least from Opoczno (1) and Zduńska Wola (2). Almost a half of the implemented projects, which is to say 48%, concerned meat processing projects. The second and third

largest groups included milk processing projects – 18.7% and fruit and vegetable processing – 17.3%. The total value of implemented investment within operation 1.5. ‘Improvement of processing and marketing of agricultural products’ stood at 298.04 million PLN and the average value of projects was 3.97 million, which is slightly higher than the nation average of 3.82 million PLN. It is worth highlighting the fact that only 6 beneficiaries decided to implement more than 1 investment project, which puts Lodz Voivodship bottom nationally. Such a state of affairs may have been caused by the fact that 84% of companies that received investment support are micro, small or medium sized companies⁵⁹.

Since 2007, the aid for the agro-food sector companies has been paid out within the Programme for the Development of Rural Areas (PROW). The operation ‘Increasing the value-added of primary agricultural and forestry production’ is a continuation of the previous operation ‘Improvement of processing and marketing of agricultural products’ and is dedicated to Polish agri-food processing. Around 1,100 million Euro have been allocated in order to support investment through this programme. The aid is geared mainly towards small and medium sized companies, which can receive up to 50% eligible investment costs. Such operations, as in the previous support programmes, underpin the projects, whose aim is to improve a company’s competitive advantage, production quality, cost reduction, development of new products, processes and production technology. Support is also granted for activities which will improve production conditions in reference to current or recently introduced standards. Companies operating in the meat, milk, fruit and vegetable sectors dominate among the beneficiaries of this aid. Investment co-funding is aimed at purchasing new machinery and equipment as well as specialised means of transportation. The average aid paid out per project stands at about 450,000PLN.

Within the Lodz Voivodship, 221 companies applied. Most applications were filed in the regions of Sieradz (24), Radomsko (19) and Zgierz (18) the least from Poddębice (1) and Brzeziny (2). The total amount of the planned investment stands at 1,162 billion PLN, and an average investment cost for a single company is 5.25 million PLN. Almost a half of the companies applying for financial support express as their main target an increase in value-added, 24% of companies point

⁵⁹ Sectoral Report Operational Programme “Restrukturyzacja i modernizacja sektora żywnościowego oraz rozwój obszarów wiejskich, 2004-2006”, Działanie 1.5 “Poprawa przetwórstwa i marketingu artykułów rolnych”, MRiRW, Warszawa 2010, p. 26.

to the improvement of production quality, while 20% refer to the introduction of new products, processes and production technology⁶⁰.

Apart from the above mentioned SPO and PROW co-financing, entrepreneurs of this sector who benefitted from the resources of the European Agricultural Fund in order to develop rural areas between 2004-2006 'received the opportunity to benefit from EU funds within the so-called regional help. It is granted for investment and R&D activities within, among others, Operational Programme Innovative Economy (POIG) and for entrepreneurs operating in the Special Economic Zones' [Cieślewicz, 2011].

Analysis of the condition of agri-food companies after Poland's accession to the EU

Despite investment, the number of companies in the Lodz Voivodship has been on the decline since 2002, which is similar in the majority of Voivodships (Table1).

Lodz Voivodship witnessed the highest drop in registered companies in 2003, before Poland's accession to the EU, but also in 2009, which seems to have been caused by the financial crisis, resulting in the decrease in exports due to the lesser demand for Polish products. In addition, the significant depreciation in the zloty caused the cost of loans taken out in foreign currencies to rise and – in the case of several companies – it led to substantial losses due to previously conducted option transactions⁶¹. Despite this trend for falling numbers of companies lasting since 2002, thanks to the investment, the dynamics of the sold production remains in the same range (Table 2, Graph 1).

⁶⁰ Own calculations based on ARiMR data.

⁶¹ Polska wobec światowego kryzysu gospodarczego, Polish Central Bank, Warsaw 2009, www.nbp.pl.

Table 1. Data on the number of companies accorded to sector and parts according to the Polish Classification of Enterprises

Territorial Unit	Local units								
	Sector D part 15						Sector C part 10+11		
	2002	2003	2004	2005	2006	2007	2008	2009	2010
ŁÓDZKIE	2808	2524	2524	2519	2499	2306	2108	1603	1556
MAZOWIECKIE	4011	3404	3404	3119	3153	2886	2851	2564	2511
MAŁOPOLSKIE	2026	1936	1936	1808	1764	1628	1638	1568	1502
ŚLĄSKIE	3016	2656	2656	2528	2430	2376	2278	2064	2082
LUBELSKIE	2356	2032	2032	1797	1728	1583	1418	1270	1215
PODKARPACKIE	1370	1120	1120	1032	1035	959	977	890	866
PODLASKIE	1063	907	907	735	721	654	700	579	575
ŚWIĘTOKRZYSKIE	943	791	791	717	697	643	659	604	565
LUBUSKIE	6117	559	559	539	520	479	459	429	2030
WIELKOPOLSKIE	3341	2632	2632	2576	2566	2447	2460	2056	775
ZACHODNIOPOMORSKI E	1198	1052	1052	999	995	914	906	793	436
DOLNOŚLĄSKIE	1654	1522	1522	1429	1424	1315	1169	1040	1056
OPOLSKIE	694	697	697	650	659	612	594	502	496

KUJAWSKO- POMORSKIE	184 8	145 3	145 3	129 2	123 3	111 0	118 0	909	855
POMORSKIE	142 4	125 7	125 7	119 7	117 3	104 0	104 6	908	633
WARMIŃSKO- MAZURSKIE	102 7	994	994	888	821	773	749	668	900

Sector D part 15 – production of food and beverages (according to PKD 2004); Sector C parts 10 +11 – production of food and beverages (according to PKD 2007)

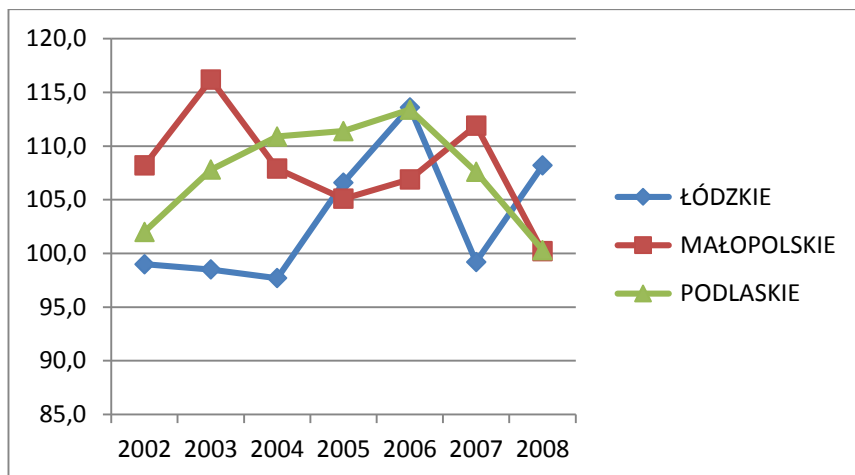
Source: Own work based on Bank of Regional Data, Main Statistical Office www.stat.gov.pl.

Table 2. Dynamics of sold production of industry according to sector and part PKD 2004 *

Voivodship	Food processing						
	2002	2003	2004	2005	2006	2007	2008
	%	%	%	%	%	%	%
LÓDZKIE	99.0	98.5	97.7	106.6	113.6	99.2	108.2
MAZOWIECKIE	96.9	108.0	111.9	108.3	110.8	118.7	96.3
MAŁOPOLSKIE	108.2	116.2	107.9	105.1	106.9	111.9	100.2
ŚLĄSKIE	111.3	117.8	112.4	115.6	112.8	111.8	119.7
LUBELSKIE	102.7	101.7	102.9	114.6	103.2	108.1	114.5
PODKARPACKIE	94.8	116.3	79.7	120.2	105.6	97.1	106.4
PODLASKIE	102.0	107.8	110.9	111.4	113.4	107.6	100.3
ŚWIĘTOKRZYSKIE	102.9	109.5	112.4	111.8	93.4	89.4	102.3
LUBUSKIE	103.1	99.8	92.7	89.7	100.1	107.5	109.5
WIELKOPOLSKIE	96.9	103.1	108.5	110.5	106.6	103.3	105.6
ZACHODNIOPOMORSKIE	90.1	109.7	110.9	103.5	95.0	100.5	115.2
DOLNOŚLĄSKIE	95.6	107.8	96.7	111.6	91.0	95.6	136.8
OPOLSKIE	118.2	105.4	111.5	109.3	91.7	97.2	99.7
KUJAWSKO-POMORSKIE	95.0	120.9	104.2	92.0	103.7	110.3	98.8
POMORSKIE	97.0	125.1	110.9	104.2	104.3	105.4	112.2
WARMIŃSKO-MAZURSKIE	91.4	106.7	90.3	99.2	115.6	136.6	100.4

** Fixed prices; previous year = 100; data refers to the whole group

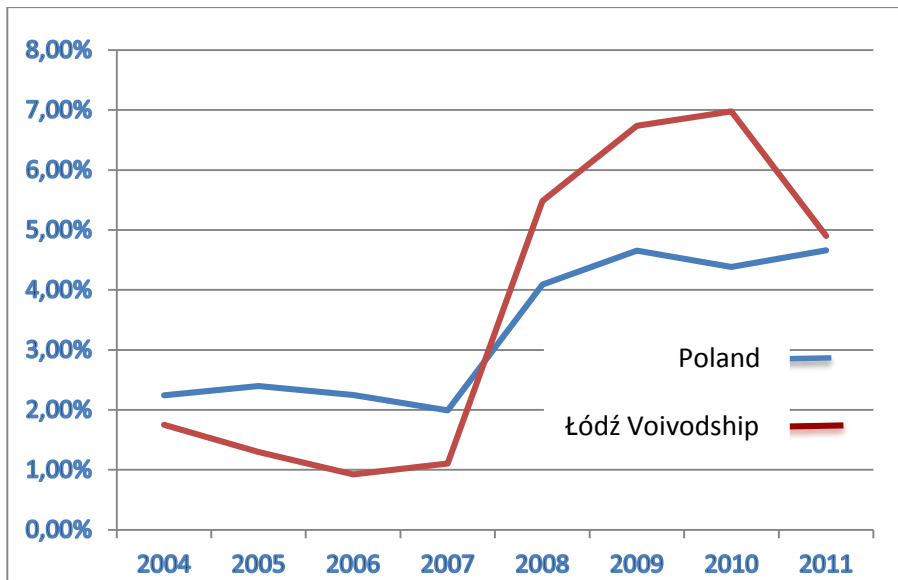
Source: Bank of Regional Data, GUS.



Graph 1. Dynamics of sold production of the food industry in selected Voivodships

Source: Own work.

This situation was possible thanks to the adjustment of the agri-food sector to the homogenous EU market in the aspects of fulfilling sanitary, hygiene and quality requirements. Such an expensive adjustment would not have been possible without additional sources of investment funding like EU aid. This assistance, combined with the financial aid from the national budget, supported the development of many food processing companies in Lodz Voivodship. However, the investment undertaken did not contribute directly to improvement under the HACCP system as, despite the implemented investments, the level of incompliance with the system in companies between 2006 and 2010 was constantly on the increase (Graph 2).



Graph 2. Incompliance with the HACCP system in inspected places which produce animal products

Source: Own work based on „Sprawozdań z działalności i stanu sanitarnego obiektów, w których produkowane są produkty pochodzenia zwierzęcego” General Veterinary Inspectorate, www.wetgiw.gov.pl.

The reason for such a state of affairs stems from the fact that most investment was linked to value added increase and not to the introduction of new processes or technologies. The negative result could also be a resultant of the restructuring of companies, which frequently interfered with current production processes based on HACCP requirements.

Since 2008, the Lodz Voivodship has seen a consistent improvement in company conditions connected to the adherence to the bill 853/2004 of the European Parliament and Council, which introduced laws connected to the hygiene of animal food⁶². Since that year, the number of incompliances registered by the veterinary supervision bodies has halved, meaning an increase of food production safety⁶³.

⁶² Regulation (EC) No. 853/2004, 29 April 2004 laying down specific hygiene rules for food of animal origin, Dziennik Urzędowy UE L139/55, 30.04.2004.

⁶³ Own calculations based on „Sprawozdań z działalności i stanu sanitarnego obiektów, w których produkowane są produkty pochodzenia zwierzęcego” General Veterinary Inspectorate, www.wetgiw.gov.pl.

Summary

To sum up, one can assert that Poland's accession to the EU has had a positive impact on the companies of the agri-food sector in the Lodz Voivodship. On the one hand it was a significant investment stimulus, boosting development and competitiveness, on the other it was an important factor in their continued market operations. However, not all companies of Lodz Voivodship passed this adjustment measure successfully. Many ceased to exist, others merged or were absorbed by a stronger competitor. The significant popularity of these funds led to the implementation of investment which facilitated company modernisation and, as a consequence, the achievement of a technological level similar to that of EU leaders. The process took several years and was very expensive, however its effects are visible today. Meat processing plants were co-financed to the largest extent as they were the biggest beneficiaries of assistance programmes. Milk and fruit and vegetable processing plants also benefitted significantly, becoming, as a result, highly developed and specialised enterprises.

References

1. Bagieńska, A., [ed.], *Finansowe aspekty rozwoju przedsiębiorstw we współczesnej gospodarce*, Wydawnictwo Politechniki Białostockiej, Białystok, 2008, pp. 200–207.
2. Cieślewicz, W., *Finansowe wsparcie inwestycji w polskim przemyśle rolno-spożywczym*, Zeszyty Naukowe SGGW w Warszawie - Problemy Rolnictwa Światowego, t. 11(26), zeszyt 2, 2011, p. 5.
3. Duraj, J., *Podstawy ekonomiki przedsiębiorstwa*, Polskie Wydawnictwo Ekonomiczne S.A., Warszawa, 2000.
4. Knap-Stefaniuk, A., *Przemysł spożywczy w Polsce, Cz. I Problemy i wyzwania*, Biuletyn Polish Open University nr 5, Wyższa Szkoła Zarządzania, Warszawa, 2010, <http://www.wsz-pou.edu.pl>.
5. Matejun M., *Czynniki rozwoju małych i średnich przedsiębiorstw na podstawie badań w mikroregionie łódzkim*, [in:] Lachiewicz S., Zakrzewska-Bielawska A. [ed.], *Teoria i praktyka zarządzania rozwojem organizacji*, Wydawnictwo Politechniki Łódzkiej, Łódź, 2008, pp. 151–163.
6. Pierścionek, Z., *Strategie rozwoju firmy*, Wydawnictwo Naukowe PWN, Warszawa, 1998.

7. Penc, J., *Leksykon biznesu*, Agencja Wydawnicza Placet, Warszawa, 1997.
8. Stabryła, A., *Zarządzanie strategiczne w teorii i praktyce firmy*, Wydawnictwo Naukowe PWN, Warszawa-Kraków, 2000.
9. Tarajkowski, J., (ed.), *Rozwój przedsiębiorstw – strategia – integracja*, Zeszyty Naukowe nr 107, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań, 2008.
10. *Polska wobec światowego kryzysu gospodarczego*, Narodowy Bank Polski, Warszawa, 2009, www.nbp.pl.
11. Report Sectoral Operational Programme, *Restrukturyzacja i modernizacja sektora żywnościowego oraz rozwój obszarów wiejskich, 2004-2006, Działanie 1.5 „Poprawa przetwórstwa i marketingu artykułów rolnych”*, MRiRW, Warszawa, 2010.
12. Regulation (EC) no 853, 2004, 29 April 2004 laying down specific hygiene rules for food of animal origin, Dziennik Urzędowy UE L139/55, 30.04.2004.
13. Information on SAPARD implementation, www.arimr.gov.pl. [accessed: May 2013]

