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## **AGRITOURISM BUSINESS ENTITIES IN POLAND IN THE LIGHT OF SELECTED THEORIES ON ECONOMIC ACTIVITY LOCATION**

### **Summary**

At present theories explaining location of different firms from all economical sectors create special scientific stream in economical geography. Many theories have been put forward to explain the location of various types of economic activities since the 19<sup>th</sup> century. Some of them concern only to agriculture or industry. Others concern to modern forms of human, economical activity. In the modern approach, the location of a business also includes the results of the procedure of selecting a site at which an economic activity of a certain kind will be conducted. The location theory aims to define the spatial organisation of a company and to find the variables which will make it possible to state the location and to find analytical solutions.

Agglomerations, due to high power of attracting and retaining the capital and entrepreneurial-minded staff, provide a good location for small and medium-sized enterprises (SMEs).

Some theories of industrial location base on the concept of networking, which perceives the enterprise operation as a chain of various activities. Businesses develop while manufacturing goods, then they transfer those goods to successive entities.

At present there are not many researches in literature explaining location, including sector of SMEs. Agritourism activity is the example of this sector creating in rural areas in many parts of Poland.

**Key words:** activity location, agritourism business, spatial process, location

## INTRODUCTION

The problems related to the location of economic activity have always been a matter of interest for economic and geographical sciences. Many theories have been put forward to explain the location of various types of economic activities [Wieloński 2004].

The term location (cf. Latin *locare* - to locate) refers to the object spatial position with respect to other components found in this space, e.g. transportation network, settlements, mineral resources deposits, service businesses, production sites and others [Budner 2004]. Location comprises four main elements: the object located, the site of location, the goal, and the factors of location. Two aspects of the concept can be distinguished:

1. the static one (location as a state of a certain kind),
2. the dynamic one (location as a spatial process).

According to Kortus [1989], in the classic approach, location concerns selecting a site for an industrial plant or another facility. In practice, the concept refers to the procedure of selecting a site for a given economic activity. The selection process takes place at a national, regional and local level.

In the modern approach, the location of a business also includes the results of the procedure of selecting a site at which an economic activity of a certain kind will be conducted. The location theory aims to define the spatial organisation of a company and to find the variables which will make it possible to state the location and to find analytical solutions.

Every site offers certain advantages, whereas every economic activity imposes specific requirements. The location will be the most advantageous (optimal) when the advantages and requirements will be best matched [Fierla 1987]. Both location advantages and requirements evolve in time. Consequently, the assessment of the existing location may change. As a result, a new economic activity will be sought for the given site (re-conversion), or a new site will be looked for to conduct the same business activity (relocation).

The main aim of this paper is an attempt to discuss the main, selected theories on economic activity location is aspects of agritourism businesses.

### **Some selected theories on economic activity location**

First attempts at defining the location of economic activity were taken already at the turn of the 19<sup>th</sup> and the 20<sup>th</sup> century [Budner 2004]. In the work entitled "Determining the location of an industrial plant in practice" the first traditional theses on location were formulated. The research was continued by Thünen, Predöhl, Lösch and Weber Kuciński 1996].

In the literature on the subject, a German economist Johann Heinrich von Thünen is regarded as the father of the location theory [Dramowicz 1978]. On

the basis of long-term empirical studies on the land use, he made an attempt to explain why agricultural zones (rings) formed around a city which provided a market for farm produce.

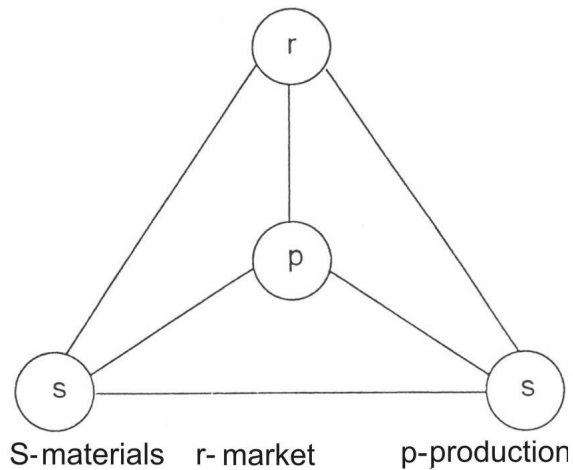
In the suburbs, farms specialise in the intensive production of vegetables, soft fruit, milk and dairies, i.e. the products that are both bulky and perishable goods, which have to be delivered to the town every day. As the distance from the town grows, a decrease in the intensity of farming is observed in the subsequent zones. The consecutive rings in Thünen's model are formed by forestry, extensive farming and animal raising with the grain production for personal needs. Such a system operates when a part of the land is used in such a way that it produces the highest rent, i.e. the difference between the gross income from sales and the transport costs. Thünen's model is based on the following assumptions:

1. the farmed land is not diversified and it has uniformly fertile soil,
2. only one centre of consumption exists, which uses farm produce from the surrounding areas and which has no links to other centres or areas, so it is isolated,
3. transport costs are a function of distance and the commodity weight,
4. sales prices are the same for all products of a given type.

Therefore, in accordance with Thünen, the ground rent is the most important factor for the agriculture location.

Another location theory was put forward by Weber [Kuciński 1996]. The author presented the comprehensive mechanism of finding the optimal location of an industrial plant. He distinguished three location factors, namely the transport costs, the labour costs and the advantages of agglomeration, in which the transport costs are considered the most important as they account for 20-40% of the production costs. The optimal location is that at which the transport costs are the lowest. Two other location factors can slightly change the location if an increase in the transport costs caused by this change will be compensated by cheaper labour or the agglomeration advantages [Godlewska 2001].

After determining the point of minimal transport costs, Weber analysed the impact of workers' wages on the location of an industrial plant. He assumed that wages are spatially changeable and can cause a distortion, i.e. the deviation of the industrial location from the point of the minimal transport costs. If the aim of the business is to minimise the combined (transport and labour) costs, the spatial differentiation of labour costs is a co-determinant of the optimal location. The advantages offered by agglomeration constitute the other deviation factor, in addition to labour costs, that transfers the industrial location from the point of the minimal transport costs. Those advantages may well compensate an increase in transport costs and labour costs, and also attract industries to sites where transport and labour costs are higher than at the original optimum.



Source: according to Kortus (1989).

**Figure 1.** Model of Weber's theory of economic activity location

Predöhl introduced the substitution principle to the spatial analysis. The principle constitutes the core of the theory of general equilibrium [Brown 1979]. According to Predöhl, no relationships hold between a general economic theory and specific agriculture and industry theories (those of Thünen and Weber). Logical connections and dependence relations did not form because those two research areas developed separately. The link could be provided by a location theory devised in accordance with scientific methods that originate in a general economic theory. The concept of substitution was introduced to account for the spatial factor. In the general economic theories, the location theory was developed.

Predöhl formed a bridge not only between the equilibrium theory and a general location theory. He also indicated the links between his general theory and earlier location theories of Thünen and Weber. The basic difference he perceived with respect to the assumptions of both theories concerns a different character of space in which economic activity is conducted. If this space constitutes a continuum, as it was assumed by Thünen, the location rent and transport costs are the factors that determine location. If the space is discontinuous with centres of consumption, labour and resources obtaining, as it was the case in Weber's theory, the location factors also have to include location-diversified

costs of the capital and labour. Although in the two theories the location factors were selected in a different manner, both Thünen and Weber examined virtually the same thing, i.e. a combination of different factors. Both approaches accept the substitution principle, though the choice of factors is different due to the distinctive character of agriculture and industry.

The conclusion Predöhl drew was that Thünen's and Weber's theories were particular instances of his general location theory.

The first general theory of spatial economy was formulated by Lösch. He starts from extending the location theory. As it pays much attention to the market, price and competition, Lösch's theory can be regarded as neoclassical. The criterion of the optimal location is assumed to be the maximization of the profit obtained through the conquering of as much market space as possible, and also by gaining the dominant position among competitors operating in the same market. In accordance with Lösch's concept, the activity of competing companies is correlative. At the assumption of free competition, the number of competitors in the market will increase. Each business intends to reduce market areas of its competitors until the stage is reached at which excess profits disappear. Free competition results in the maximization of the number of business entities. Location of companies comes as a resultant of two opposite forces, namely the maximization of individual profits and the maximization of business entities. The decisions stimulated by those tendencies lead to the spatial balance in the economic activity.

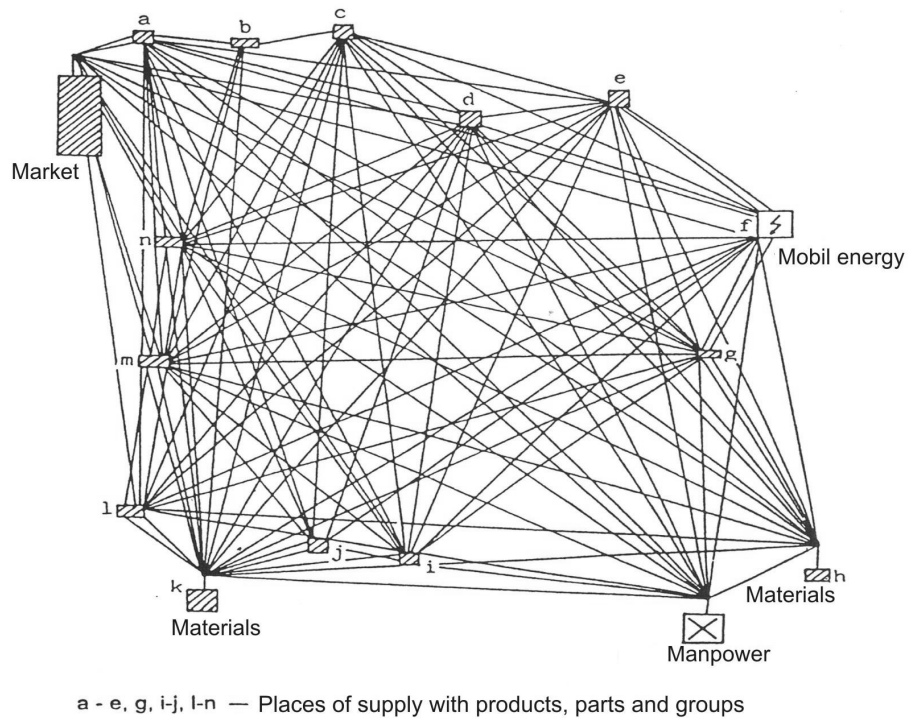
Lösch introduced a few more realistic prerequisites into Thünen's theory, namely:

- unit cost of production per hectare,
- volume of production per hectare in natural units,
- market prices for agricultural products.

At these assumptions, the distribution of agricultural production differs much from the theoretical zone arrangement of Thünen's theory. In particular, it is possible to obtain a more realistic system of mixed agricultural economy. Agglomeration advantages are considered by Lösch both in production and consumption aspects. The concept mentioned above is used to relate the issues of the location of economic entities to those of human settlements. The theory of economic region constitutes the core of Lösch's work. In the production process, the scale advantages are revealed, which make it possible to increase profits from a production unit. Enlarged production in remote settlements, however, entails higher transport costs. Thus the spatial production system results from the interaction between scale and agglomeration advantages on the one side, and transport costs on the other. Goods that are widely consumed will be produced in a large number of sites, and the markets for them will be spatially small. Goods that are rarely purchased will be manufactured on a small scale, yet the selling markets will extend over vast areas.

Theories of location suffered from a shortcoming in that they treated either production costs or sales prices as variables. As a matter of fact both parameters varied, therefore Lösch's theory provides a better tool to describe the reality.

In the 1960s, Hamilton polygonal theory was put forward [Hamilton 1975]. In accordance with this theory, the market is of key importance, the raw materials resources are dispersed in character.



Source: according to Kortus (1989).

**Figure 2.** Hamilton's polygonal model

Suppliers become dispersed and their number grows, the costs therefore decrease. The importance of the market and qualified labour force increases.

### **Theories on economic activity location and agritourism business**

The development of agri-tourism in the Świętokrzyskie province relies mostly on the advantageous geographical position and also on the rich and diversified tourism product offered by the rural areas of the region. The new agri-tourism businesses arise and tourism products vary to meet the needs of growing modern market.

All the theories concerning the location of economic activity (including agri-tourism business sector) only partly explain the location of agri-tourism businesses in the Świętokrzyskie province. Due to the fact that currently new economic space is based primarily on small and medium-sized enterprises, theories on the location of economic activity do not fully apply to the present time. The dynamic approach to location implies, which could be considered one of partial goals, the maximization of the location flexibility, i.e. location changeability.

Modern theories on the location of economic activity are geared towards advanced technologies in the sector of small and medium-sized enterprises (SMEs). They are also connected with sociology and psychology laws.

New trends in explaining, from a modern standpoint, the processes of the location of economic activity are related to:

- the specification of factors,
- theory of the market product life-cycle,
- theory of innovation diffusion,
- the concept of the agglomeration advantages and disadvantages.

The concept that involves the specification of factors assumes that innovative enterprises in the smaller-size class tend to move to areas characterised by enhanced location attractiveness [Haus 2001]. SMEs therefore pay particular attention to such factors as: the human capital, higher education institutions and research institutes, transport infrastructure, and also political conditions and business opportunities. Some of the location factors mentioned above played important role already in classic theories, yet due to the introduction of new technologies and the downsizing of the production volume those have to be perceived in a different way. That refers, e.g., to transport and other sectors that use different equipment. The introduction of new materials, machines and devices made company owners locate their businesses close to airports, transportation links, universities, and research and development centres. Consequently, quantitative and qualitative changes took place. Those new factors are closely related to practice. In accordance with the concept mentioned above, those location factors significantly raise the attractiveness of a region and provide favourable environment for the location of SMEs.

In 1966, Vernon developed the theory of the market product life-cycle [Wieloński 1998]. In accordance with this theory, all products have life cycles in

the market, where individual location factors show diversified importance. As a result, specific spatial consequences follow, e.g., re-locations (changes in location), moving the production down the hierarchic spatial system. Due to the fact that small and medium-sized enterprises are currently prevalent and the product life-cycle is shortened, the course of individual cycles has changed. Businesses have to engage in manufacturing new commodities, while sales and profits can be maintained due to multiple production cycles. Companies become more and more flexible, and also dependent on qualified personnel and agglomeration advantages. Thus the companies in SMEs sector tend to transfer their location towards large urban centres.

Innovation diffusion is another contemporary theory related to industrial location. Presently, the process is considered to be a major driving force in the economy, and the process expansion is regarded as condition for the growth of spatial systems and spatial development of business entities. All the regions, in which small and medium-sized enterprises are found, are characterised by a set of factors providing them with a specific innovation potential. The latter depends, among others, on the geographical location and the region's topography, technical and social infrastructure, institutions of higher education, research and development centres, the diversification of the human capital and the quality of the natural environment. The innovation diffusion process is largely affected by the stream of information flow, and also the degree of the human capital diversification. SMEs based in regions that have good information network and where centres of scientific and technical information are found, will be the fastest to respond to innovations [Kamińska 2006]. The features of the human capital such as entrepreneurship skills, being open to relevant information, which is also important for the innovation "learning" process, will be equally important here. In accordance with this theory, innovation will be disseminated the most rapidly to SMEs based in the largest urban and industrial agglomerations.

The concept of the agglomeration advantages and disadvantages assumes that the spatial concentration of businesses makes it possible to lower the production costs. A trend prevails towards locating various activities in a given space. As a result both advantages and disadvantages of agglomeration are shown. The former can be external ones, as e.g. cooperation in production, sales opportunities or internal ones, which include, e.g. increase in the volume of production. The disadvantage can involve social pathologies, inflated real estate prices and the natural environment pollution and degradation. It happens very often that small and medium-sized advanced technology enterprises are free to choose location as they are not dependent on the traditional factors (transport, raw materials resources, cheap labour), so they move to unindustrialised areas. Consequently, new industrial areas are formed, situated outside the old centres and based on SMEs. The formation of new centres leads to the manifestation of agglomeration disadvantages. That may produce the de-concentration of enterprises in space and establishing new businesses in the periphery areas.



Presently, in regions that have traditional production structure and apply traditional methods, favourable conditions can be created for innovation [Dolata 2006]. The centres that restructure their industries develop the so-called incubation environments that support new technologies [Swadźba 2000]. Agglomerations, due to high power of attracting and retaining the capital and entrepreneurial-minded staff, provide a good location for SMEs.

## CONCLUSION

Some theories of industrial location base on the concept of networking, which perceives the enterprise operation as a chain of various activities. Businesses develop while manufacturing goods, then they transfer those goods to successive entities. The flow of value is multi-directional in character and leads to co-operation, and on long-term basis - to competition within the network. Owing to that, the enterprises derive additional benefits from having access to e.g. assets (machines, financial assets, personnel) or capabilities of independent partners. Networks are formed by large companies, but also by small and medium-sized ones. The network range is diversified from local to the global. An example of the networking concept is Porter's cluster theory [Wieloński 1998], which explains the industrial location in the context of competition. The cluster is formed by a group of enterprises that are interconnected and concentrated geographically. It comprises companies that constitute the same chain and which do not compete with one another, yet through handling other parts of a given sector, they improve general conditions of the operation of businesses and bring profits to many companies.

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