ENTREPRENEUR IN AGRICULTURAL CLUSTER

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Abstract
The paper analyses some aspects influencing the activities of entrepreneurs within the framework of the agricultural cluster in Latvia. Attention is paid to unbalanced territorial social-economic development and to necessity to intensify the production in Latvian regions, to accelerate the growth of agriculture. There are also accentuated the importance of exports, of creating of a favourable entrepreneurship environment, of the right choice of priorities and the necessity for improvement of agricultural education level, as well as for adequate support to entrepreneurs.

Keywords: entrepreneur, agricultural cluster, intensification.

Introduction
In Latvia, the achievement of the average social-economic level of the EU is an important priority. Bringing into effect this priority under present circumstances requires making use of potentialities to increase the production and its productivity on the basis of a more rational use of production factors by entrepreneurs in all economic areas, inter alia in the agricultural cluster.

The aim of the paper: to study some aspects of development of entrepreneurship activities within the framework of agricultural cluster.

The object of the research: the potential of agricultural cluster of Latvia.

The methods of the research: monograph method, dialectic method, logical constructive method.

The results of the research show that the unbalanced social-economic development in Latvia incites the entrepreneur to take a closer look at different features of the agricultural cluster, especially in rural areas. In this way, he can get some knowledge and understanding that may help him to make the right decisions in the combination of production factors.

Entrepreneur and particularities of agricultural cluster
Together with widening of the globalisation processes, there increases the role of agricultural cluster, including different kinds of production, inter alia produce of agricultural products, their processing, and others.

After restoration of independence, the agricultural cluster in Latvia was subjected to essential interrelated changes created to a great extent by decrease of production in agriculture after 1990 and its decelerated growth and recovery. In 2007, the production level in agriculture made only 50.8% of the level of 1990, inter alia in crop farming 87.9%, and in livestock farming 34.5% (Latvijas Statistikas Gadagrāmata, 2008). It influenced the processing of agricultural products considerably.

The decrease in agricultural production and its slow recovering made an unfavourable impact on rural inhabitants, because the production and processing of agricultural products form the basis of their existence and welfare. It underlines the necessity to find out the potentialities favouring the use of advantages included in rational and harmonized functioning of all components of the agricultural cluster, taking into consideration the role of the entrepreneur as a central figure, combining the production factors on the level of a company in a way to provide an acceptable return.

Developing his activities and combining production factors in a dynamic and complicated entrepreneurship environment, the entrepreneur has to make decisions after evaluating the advantages and disadvantages. It requires to get acquainted with this environment, to be able to evaluate the situation and to act, taking into account the risks.

Acting within the framework of the agricultural cluster, the entrepreneur has to take into consideration that this cluster is characterized by the following:

- it includes technologically different areas of economy;
- an important component of it is the agriculture;
- the integration of agriculture and processing continually increases;
- in production of products on agriculture basis, there participate a range of other branches;
- gradually, the agriculture changes from a branch producing end products, to a branch supplying raw materials;
- the enlargement of production in agriculture depends on what machines, equipment and other technical devices it will be able to obtain from other producers.

Presently, within the framework of agricultural cluster of Latvia, the entrepreneur has to develop his activities in a rather uneven and complicated environment, interacting dynamically, first of all, with such important area as the agricultural production. It may be characterised by the unbalanced production intensity all over the territory of the country (Table 1).

**Gross domestic product per capita in Latvian statistical regions**

<table>
<thead>
<tr>
<th>Regions</th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
<th>% of the average in Latvia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Riga</td>
<td>1488</td>
<td>3459</td>
<td>7114</td>
<td>141.4</td>
</tr>
<tr>
<td>Pierīga</td>
<td>868</td>
<td>1351</td>
<td>2743</td>
<td>82.5</td>
</tr>
<tr>
<td>Vidzeme</td>
<td>682</td>
<td>1127</td>
<td>2309</td>
<td>64.8</td>
</tr>
<tr>
<td>Kurzeme</td>
<td>1147</td>
<td>1938</td>
<td>3118</td>
<td>109.0</td>
</tr>
<tr>
<td>Zemgale</td>
<td>763</td>
<td>1178</td>
<td>2192</td>
<td>72.5</td>
</tr>
<tr>
<td>Latgale</td>
<td>709</td>
<td>975</td>
<td>1910</td>
<td>64.7</td>
</tr>
<tr>
<td>Latvia</td>
<td>1052</td>
<td>2002</td>
<td>3938</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: data of CSB of Republic of Latvia.

As it can be seen from the data in Table 1, in the production of GDP per capita there increases the polarisation between the capital Riga and other statistical regions. In 1995, this indicator in Riga region was 141.4% of the average in Latvia, but in 2005 it was 180.6% already. In other regions of Latvia this indicator became worse, including Latgale region where it shrank from 67.4% to 48.5%. It should be mentioned that in 2005 Riga together with Pierīga created 68.4% of the GDP and received 63.8% of the investments (Latvijas Statistikas Gadagrāmata, 2008).

To some extent, it explains the relatively low contribution of the agriculture to the economy of Latvia. Therefore, for example, in 2007 in agriculture were employed 9.6% of all working people, however, it provided only 3.1% of the added value [4]. It may result from insufficient productivity and from a certain technology gap. In 2007, the average crop capacity made 29.4 cwt/ha and ranged from 43.8 cwt/ha in Dobele district (Zemgale region) to 20 cwt/ha in Ludza district (Latgale region). During the period of 1990-2007, the production of meat per capita decreased from 116 kg to 37 kg, and the production of milk decreased from 711 kg to 370 kg [4]. As it may be seen from certain researches, one farmer in Latvia provides for 9 people, in the countries of the EC – for 19 people, in America and Canada – for 100 people (Dizma, 2003).

It means that there is a serious necessity to look for ways to facilitate the increase of productivity in agriculture or, in other words, to intensify it, taking into consideration its specific features that are determined by the circumstance that in agriculture in the process of using all resources, inter alia land, livestock, technology and others, takes place a certain particularity. It is determined by organic interrelation of technological, social-economic, biological laws in the process of their interaction. Other components of the agriculture cluster face only the first two groups of these laws. In agriculture, the useful return is provided through mediated influence on the product. In crop farming it takes place through soil and herbage, in livestock farming – through livestock and birds.

In agricultural cluster, the intensification depends directly on coordinated activities and harmonized interaction. Therefore, for example, a low technological level in one area may cause losses in other areas. It is of great importance in the crop farming and forms the basis of the whole agriculture. If this area suffers falling back, then there will suffer the livestock farming, but further it will be felt by processing areas having to do with the products supplied by farmers. As to the technological development, the agriculture, besides the impact of it, gets to also feel the impact of climatic and natural conditions. A special attention is required by new approaches in the soil cultivation and cornfield cultivation, new kinds of fertilizers, new breeds, new kinds of fodders, because they all set certain limits that cannot be exceeded. If an agriculture machine destroys the fertile soil stratum, it worsens the structure of the soil and, as a result, the richness of the soil decreases. Unfavourable proportions in the use of fertilizers and plant protection chemicals may lead to excessive fertilization of the soil that may blight the
In the livestock farming a great role is played by the right choice of the kind of livestock and the fodder balanced on the protein basis (Экономика..., 1988).

In the process of creation of a harmonized functioning of all components of the agricultural cluster, a great role is played by timely set priorities as regards one or another section or area. To such areas in Latvia may be attributed the milk industry, including the production and processing of the milk. Milk industry in Latvia represents a traditional production area and nowadays is one of the main stages in agricultural production, providing from 20% to 25% of the amount of agricultural production per annum. This industry is also one of the principal sources of income for rural population employed in agriculture.

During the period of 2002-2007, the amount of production of milk increased, and the structure of production improved. However, some circumstances indicate that the production potential in this industry remains not fully used, and that there may be risks that the tendencies of the previous positive development might be not continued. The production is characterized by fragmentation in a great deal. The purchase price of milk that was offered by the processing sector does not compensate for the production costs of milk. In 2007, the growth of income of farms, having been seen during a certain period, was interrupted, and a decline in the revenues took place (Par situācija..., 2008).

Presently, the situation in milk industry continues to worsen, what brings to the light certain problems. Because of the crisis and for some other reasons, more and more signals appear showing that the milk industry runs into difficulties and the producers in this area are led sometimes to the verge of despair. Purchase prices of milk are decreasing and, therefore, the farmers are unable to repay the loans. The situation in the milk market must be characterized as highly atypical. The prices are decreasing, and it is very difficult to cope with the continuation of a production that lasts for months with the prices being below cost level. Some farmers receive the payment for milk with a certain delay, but some do not receive this payment at all, as it is confirmed by the number of complaints. If the farmers receive the payments with a delay, they fall behind the schedule of repayment of bank loans. Additionally, because of the crisis, some signs of overproduction appear, too (www.tvnet.lv).

The farmers look for a way out of the critical situation and come with their proposals. Their opinion is that the government supports the big processing companies that are living from abusing the farmers. In this context, the viewpoint of the manager of the cooperative “Piena celš” is that it is necessary to change the organisational structure of the milk industry and that it is high time to join together the production and processing and create the own processing companies, i.e. that it is necessary to join together in cooperatives and with support of the government to create their own processing company. There also exists a viewpoint that it is only when the farmers will receive a part of the money from the processing that the farms will be in capacity to function in a normal way (www.tvnet.lv).

One more viewpoint of the producers is that the problem of selling of the products must be resolved on the government level. They think that there is a need of government support in favouring of export market and that appropriate decisions must not be delayed. As to the development of the local market they insist upon some arrangements in it. One of the important problems relates to the subsidies presently being considerably lower in comparison with the subsidies to the farmers in other countries of the EU (www.tvnet.lv).

The problems mentioned above may turn out as reasonable. One of them relates to export of milk products, being presently not an acute one. In 2007, the export of cheese and cottage cheese made 0.7% among the most important products for exports, but butter comprised 0.2% and other milk products made 1.3% (Latvijas Statistikas Gadagrāmata, 2008).

The increase in export of products is an important precondition to obtain funds for purchasing the new technologies for innovation purposes. The innovative policy in Latvia is oriented to facilitation of the transfer of knowledge and technologies, creation of favourable institutional environment for innovative activities, development of cooperation between science, education, and the private sector (Ziņojums..., 2008). However, such approach requires considerable funds, the important source of which may be the increase of exports.

The rather great attention paid to the questions related to subsidies is sometimes overplaying their role. As to the problem of the subsidies, it is necessary to mention that the agriculture becomes subsidized all over the world. However, subsidies as such are not the solution to the problem. What is of essence is a balanced development, growth of productivity in agriculture, appropriate government policy. In the USA and Canada, the high competitiveness of agriculture is based on high technological level and considerable investments of knowledge in creation of production, considered subsidies to the farmers and donations with the aim to protect rural environment (Dimza, 2003).

To a certain extent, the above-mentioned has something in common with the development and organisational system of milk industry in Latvia in the 20s...
and 30s of the 20th century, relating at the same time to the implications created by globalisation processes. The developments of globalisation compel to seek new forms of organisation of production, and one of the promising forms in this sense is the creation of co-operatives (Lachmann et al., 2005).

It coincides with the Strategic Programme of Improvement of Activities in Milk Industry of Latvia elaborated in the 2007. The purpose of the programme is to contribute to effective use of the potential of milk industry, to providing of competitiveness for a medium-term period and to making preparations in the industry related to the reform of the agriculture policy and liberalisation of trade organisation (www.saimnieks.lv).

Sometimes, when the role of agricultural cluster in development of a balanced economy in our country becomes being discussed, there emerges something like a vision of what kind of model we have to orient ourselves towards, i.e. towards a transit-oriented or technologies-oriented model and so on. Perhaps there may be of interest the model of such a small country as Switzerland. Notwithstanding that the banking in Switzerland represents an important stage in the world’s financial sphere (1 bank per 16000 inhabitants) and the proportion of people employed in the services is high, the basic motto of the country is the orientation to the own industry, to enterprise of the people, to education and innovation. Exports of Switzerland are dominated by the industrial experience more and more, increases the export of technological knowledge to developing countries (Dimza, 2003).

In this country, the complex development is achieved that may be a good example to facilitate, first of all, the education and innovations.

The development of agricultural cluster puts forward more and more requirements to entrepreneurs, creating the necessity to pay more attention to education, the level of which in Latvia cannot be considered as being a high one. To a certain extent, it is characterized by the differences in agricultural education level of farm managers (Table 2).

### Table 2

<table>
<thead>
<tr>
<th>Education</th>
<th>Number</th>
<th>Pierīga</th>
<th>Vidzeme</th>
<th>Kurzeme</th>
<th>Zemgale</th>
<th>Latgale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher</td>
<td>5430</td>
<td>992</td>
<td>1182</td>
<td>808</td>
<td>1272</td>
<td>1176</td>
</tr>
<tr>
<td>Professional</td>
<td>21773</td>
<td>2606</td>
<td>5168</td>
<td>3436</td>
<td>3975</td>
<td>6588</td>
</tr>
<tr>
<td>Basic</td>
<td>15639</td>
<td>2069</td>
<td>3221</td>
<td>2891</td>
<td>2503</td>
<td>4956</td>
</tr>
<tr>
<td>Practical experience</td>
<td>70540</td>
<td>9367</td>
<td>11838</td>
<td>10013</td>
<td>12550</td>
<td>26771</td>
</tr>
<tr>
<td>Total</td>
<td>113382</td>
<td>15034</td>
<td>21409</td>
<td>17148</td>
<td>20300</td>
<td>39491</td>
</tr>
</tbody>
</table>

Proportion, % of the total

<table>
<thead>
<tr>
<th>Education</th>
<th>Higher</th>
<th>Professional</th>
<th>Basic</th>
<th>Practical experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher</td>
<td>4.8</td>
<td>19.2</td>
<td>13.8</td>
<td>62.2</td>
</tr>
<tr>
<td>Professional</td>
<td>6.6</td>
<td>17.3</td>
<td>13.8</td>
<td>62.3</td>
</tr>
<tr>
<td>Basic</td>
<td>5.5</td>
<td>24.1</td>
<td>15.1</td>
<td>55.3</td>
</tr>
<tr>
<td>Practical experience</td>
<td>4.7</td>
<td>20.0</td>
<td>16.9</td>
<td>58.4</td>
</tr>
<tr>
<td>Total</td>
<td>6.3</td>
<td>19.6</td>
<td>12.3</td>
<td>61.8</td>
</tr>
</tbody>
</table>

In none of the regions the proportion of farm managers with higher education exceeds 10%. The proportion of managers with professional education makes from 24.1% in Vidzeme region to 16.7% in Latgale region. In Vidzeme region, the proportion of managers having practical experience makes 55.3%, and in Latgale region it makes 67.8%. Without any doubt, more successful and competitive will be the entrepreneur who is able to evaluate the situation faster and to make use of the accessible advantages.

As a precondition for success in entrepreneurship the education gains more and more importance also in overcoming undesirable direct and indirect implications of different processes and historical events, inter alia the totalitarian period, characterized by wars, collectivization, privatisation, and so on. They influenced the economic and social development of the country and its population, making a certain impact on their thinking. In this context, it is reasonable to agree with those arguing that it may often be difficult to understand people who have lived from the end of the one war to the beginning of the other, fighting the implications of the one, when the next stood at the door, and, as a result, are not able even to evaluate the situation completely. No wonder that under such circumstances real evaluations were replaced by illusory hopes (Keisš et al., 2007).

During the totalitarian period and long years of planned economy, people were subjected to methodical “indoctrination” of ascetic mode of life, “fear syndrome” and self-restraint, for example, regarding the entrepreneurship as an activity being improper for “soviet people”. Therefore, no wonder that presently some people show self-restraint attitude to entrepre-
neurs and to entrepreneurship as a phenomenon that is undesirable. As to some others, there may be seen that sometimes the development of conviction that they can become well-off, create reserves, acquire wealth and provide prosperity, remains somehow delayed, though being a normal phenomenon of market economy. The impact of totalitarian period is very negative in the sense that people, having been living in it, usually try to forget it. They do not concentrate their attention on the fact that in the past there might have been much of what would have been worth an analysis and evaluation, and, if the positive would be creamed off, reasonable conclusions and decisions favouring objective conceptions as regards the past and its impact on nowadays processes, might be made (Keisš et all., 2007).

To a certain extent, the totalitarian period negatively influenced the period of transition from planned economy to market economy. The transition required to overcome great differences being difficult to cope with. The principle of collectivism was replaced by the principle of individualism. Economic individuals became responsible for planning instead of state plan. Principle of coordination came into effect through pricing in the market. State property on means of production was replaced by private property. Not the execution of the plan, but the profitability became the target for the companies. Investments were no more determined by the plan, but carried out on the basis of decisions made by companies. The movement of products took place according to market situation instead of plan targets. The consumption was based on free choice instead of plan proposals. Income became distributed through participation in production instead of centralised regulation. Foreign trade monopoly was replaced by export and import on the basis of decisions made freely by economic individuals (Im Kreislauf..., 1995).

An educated entrepreneur and farmer would undoubtedly be able to better orientate in the above mentioned and in other more or less complicated situations than an uneducated one, when combining his skills, knowledge and different kinds of accessible support, such as consultations and business development advice.

Educated farmers will be able to better understand the advices given by professional consultants and create more effective interrelations with different business structures, being presently concentrated predominantly in Riga region (Table 3).

### Business support structures in regions of Latvia

<table>
<thead>
<tr>
<th>Support forms</th>
<th>Riga region</th>
<th>Kurzeme region</th>
<th>Latgale region</th>
<th>Vidzeme region</th>
<th>Zemgale region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business parks</td>
<td>11</td>
<td>none</td>
<td>none</td>
<td>none</td>
<td>1</td>
</tr>
<tr>
<td>Industrial parks</td>
<td>6</td>
<td>1</td>
<td>none</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>Business innovation centres</td>
<td>3</td>
<td>none</td>
<td>none</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>Virtual bureaus</td>
<td>3</td>
<td>none</td>
<td>none</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>Accounting service bureaus</td>
<td>6</td>
<td>none</td>
<td>none</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>Business consultation centres</td>
<td>553</td>
<td>25</td>
<td>27</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

These interrelations may contribute to the development of business support structures in the rural areas that are far from capital Riga, facilitating in such way the attractiveness of these places to entrepreneurs and farmers desiring to start and continue business.

### Conclusions

1. Agricultural cluster plays an important role in economy of Latvia.
2. In the most important sphere of agricultural cluster of Latvia (i.e. agriculture) the entrepreneur has to carry out his activities in a complicated environment.
3. In the process of combination of production factors, the entrepreneur has to attempt to intensify the production, taking into consideration the specifics of the agricultural cluster.
4. Of great importance is the right choice of priority industries of the agricultural cluster. Presently in Latvia to such industries belongs the milk industry.
5. It is high time to resume the activities related to structural changes in production and processing of milk.
6. It is necessary to increase the exports of the products of milk industry on the purpose to facilitate the innovations.
7. The necessity for improvement of level of education is urgent.
8. Overcoming of the impact of transition period in the minds of people will lead to a reasonable contribution to the creative potential of entrepreneurs, especially in rural areas.
9. Entrepreneurship initiatives must be integrated with necessary support on all levels.
Предприниматель в агропромышленном кластере

Резюме

В статье анализированы некоторые аспекты, влияющие на активности предпринимателей в агропромышленном кластере в Латвии, который играет важную роль в экономике страны. Особое внимание уделено территориальному несбалансированному социально-экономическому развитию и необходимости интенсифицировать производство в регионах Латвии, ускоряя рост в сельском хозяйстве. Акцентированы некоторые моменты, как важность расширения экспорта, создания благоприятной среды для предпринимательства, правильный выбор приоритетов и необходимость повышения уровня образования занимающихся сельским хозяйством, а также обеспечения соответствующей поддержки предпринимателям.

В наиболее важной сфере агропромышленного кластера – в сельском хозяйстве предпринимателю приходится осуществлять свою деятельность в среде, которая находится в большой мере под неблагоприятным влиянием изменений, связанных с резким снижением производства после 1990 года. В 2007 году уровень производства в сельском хозяйстве Латвии составил только 50,8% от уровня 1990 года. Это означает, что предпринимателю необходимо искать возможности, способствующие использованию преимуществ, которые содержатся в рациональном и гармоничном функционировании всех компонентов агропромышленного кластера, учитывая роль предпринимателя как центральной фигуры, который комбинирует производственные факторы на уровне предприятия таким образом, чтобы обеспечить приемлемую отдачу.

Результаты исследования показывают, что неравномерное социально-экономическое развитие в Латвии заставляет предпринимателя смотреть более призрачно на различные стороны агропромышленного кластера, особенно в сельских местностях. Таким путем предприниматель обретает знания и понимание, что может помочь ему принять правильное решение, учитывая специфические особенности отраслей агропромышленного кластера. К такой отрасли в Латвии относится, к примеру, молочная отрасль, играющая потенциально важную роль в экспорте.

Ключевые слова: предприниматель, аграрный кластер, интенсификация.