

## **LITHUANIAN SMES IN RURAL AREAS: HOW TO BECOME SOCIAL AND COMPETITIVE**

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According to the document of Lithuanian Rural Development Programme (2007), rural areas are defined as all territories, which do not fall under the categories of urban territories or urban type settlements. In the final report of European Commission (2008) it is distinguished that rural area is a territory dominated by the natural environment and depopulated density. Rural areas form significant part of Lithuanian territory and make contribution to economic and social development. Farmland comprises 60% in Lithuania and 42% of population lives in rural areas (European Commission, 2016). The aim of the paper is to present current situation of Lithuanian SMEs in rural areas and propose innovative solutions for activity development in terms of becoming social and competitive enterprises. Research object is Lithuanian SMEs in rural areas and their development. Research methods of the paper: scientific literature analysis, comparative analysis, statistical data analysis. The main characteristics or/ and problems of rural areas in Lithuania are: emigration of young people, decreasing birth rate, aging of population, people are less prepared for undertaking various business activities than people in city areas, poor development of business, lacking alternative employment, lack of human capital (European Commission, 2008). Agriculture, hunting, forestry and fisheries are the part of economic sector in rural areas in Lithuania. Another group of population is working in industry and construction, services such as education, health care, social work, tourism and other activities (Stakeniene, n.d). Lithuania has good conditions to develop the agriculture and rural settlements: climatic conditions are supportive of dairy and meat farming, stock-breeding and growing cereals, vegetables, potatoes, fruits, sugar beets, flax and other plants; sufficient agricultural resources and their natural productivity (Stanaitis, 2004). On the other hand, there are a low competitiveness of small and medium-sized farms, an aging farming community: 35% of farmers are 65-years-old or more (EU-average of 30%) (European Commission, 2016). Shortly discussed problems provide the need of deeper analysis of business in rural areas. Especially, combination of complex recommendations and workable solutions for SMEs are needed. One of the perspectives for Lithuanian SMEs is to develop social entrepreneurship.

**Keywords:** SMEs, Rural areas, Social, Entrepreneurship, Lithuania.

### **Introduction**

In Lithuania the biggest amount of enterprises in numbers is small and medium-sized enterprises (SMEs). This tendency is being the same in all EU than more than 95 percent of enterprises are SMEs. In Lithuania we have more than 99 percent of such type of enterprises. The biggest part is of small

enterprises<sup>1</sup>. The policy of business is oriented to entrepreneurial spirit and to fostering such enterprises, but, big companies (including big farms) are taking advantage in retail, production of food, even farming and other spheres. Especially this tendency is observed in Lithuania. Activities for SMEs become limited and they lack the clients in narrow internal market. The problem analysed in this paper lays upon the revealing the situation of SMEs in Lithuania, emphasizing rural areas and overthinking the possible development ways of their developing and competitive activity. The aim of this article is to reveal the main problems of Lithuanian SMEs in rural areas and propose innovative solutions for their activity development in terms of becoming social and competitive. The object of this paper is Lithuanian SMEs and their activity in rural areas. The tasks of this paper are as follows: 1) to discuss the real situation of Lithuanian SMEs in rural areas in terms of revealing actual problems; 2) to provide solutions of possible activities or decisions to stay in the market and improve the performance. The methods used in the research are based on scientific literature analysis in depth, statistical data analysis, document analysis, comparative analysis.

### Literature Review and Discussion

Rural areas form significant part of Lithuanian territory and make contribution to economic and social development. Farmland comprises 60% in Lithuania and 42% of population lives in rural areas (European Commission, 2013). The farmers mostly are oriented to traditional farming especially plant growing (wheats, sugar beats, potatoes, corn etc.). The farming related to domestic animals is not so much popular because of situation in the market, unfavorable prices. Especially farmers are not keen on milk farms because the prices in the market for raw milk are very low. Agricultural plant growing is quite stable and provides more constant and higher incomes. That is the main motivation for keeping such kinds of farms. In plant growing farming risk also is lower (Greblikaite, Rakstys, Caruso, 2017), and income rates remain more stable.

From statistical data the situation looks not “perfect” in terms of starting and staying in business, but it provides constant activity and job places for farmers and their families. Farms are kept as special; form of SMEs in agricultural activity. The current situation does not allow to be calm and not overthink the market situation more detailed evaluating the threats and opportunities. The main threats existing in rural areas for business in Lithuania are:

- Emigration of young people. In Lithuania emigration has not stopped. In 2017 the number of emigrated people was again higher than in 2016<sup>2</sup>. The preconditions and causes remain the same, it could be considered. They are economic, social, even the wish to feel new experiences in life are becoming as the precondition to emigrate;
- Decreasing birth rate. The birth rate in Lithuania remains quite low<sup>3</sup>. Even some families are having more children (3 or more) it does not essentially change situation because of big emigration amounts and social problems for families who are under state support of their economic and social situation.
- Aging of population. In Lithuania average age for women are 80.5 years, for men – 70.5<sup>4</sup>. The average living age is growing, but the quality of life for aging people is not sufficient. They have poor economic resources, health issues, even remain living alone under social support of the state. It means they can not be and they are not the actors in labour market or even potential consumers of the excellent quality goods provided in the market.
- People in rural areas are less prepared for undertaking various business activities than people in city areas. People in local areas, especially rural areas still lack appropriate knowledge about

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<sup>1</sup> See [www.stat.gov.lt](http://www.stat.gov.lt)

<sup>2</sup> See [www.stat.gov.lt](http://www.stat.gov.lt)

<sup>3</sup> See [www.stat.gov.lt](http://www.stat.gov.lt)

<sup>4</sup> See [www.stat.gov.lt](http://www.stat.gov.lt)

other possibilities of taking business except farming. They are quite acquainted about EU support for farmers. They invest, but the essential investments go to new agricultural machinery buying and infrastructure. The social innovation is poorly implemented in the activity, except maybe rural tourism or some other crafts. The diversified activity in farms or SMEs in rural areas is, but it remains poorly developed.

- Poor development of business. In Lithuania there are complex problems in business as high rates of taxes, the overall big burden of taxes, lack of financial resources, especially for SMEs, lack of appropriate skills and abilities needed in business, especially innovative and progressive. Business management is still developing comparing to free market economy countries. For example, comparing plant growing farms between Lithuania and Italy, Farm Net Value Added (FNVA), is much higher in Italy, which opens a better perspective for this country in terms of the performance and income farm. It could be due to innovation and entrepreneurship level or to natural resources and number of farms by region. The different level of FNVA could be influenced from arable farms indicator, that were developed in the period of this observation: fertiliser units per UAA-ha; electricity costs and machinery; crop diversity; land use diversity, etc. The analysis of those additional indicators could be more explicit and valuable in terms of precision of results (Greblikaite, Caruso, 2018).
- Lack of alternative employment in rural areas. A lot of people move for a job in towns even they are still living in villages or rural areas. The main reason of that remains that in towns there is bigger supply of different jobs and salaries are higher. If in their native areas it were alternative employment except farming it would be created and provided possible job places. But new businesses are creating poorly. Some of them are closing or go bankrupt soon. They are very small and especially simple in terms of process. That does not provide appropriate added value needed for their growth.
- Lack of human capital. Lithuania started to suffer the problem that some countries are already suffering not one year. The employers complain that the labour force in the country is poor in terms of qualification, they are not motivated for some kinds of jobs, or even they start some positions they can not keep the job because of their personal problems. In rural areas, even farmers, started to look for alternatives for Lithuanian labour force. They are attracting people for jobs from Ukraine, Belarus, Latvia. They are more content with the foreign employees and their quality of work. It provides some conclusion that for Lithuanian citizens become more and more difficult to find a job, especially in rural areas. In Joniskis region (north of Lithuania) strong agricultural cooperatives are already hiring foreigners (60 families from Ukraine). The employer is content more than employing Lithuanian work force and thinks about more foreigners. It does not provide optimistic view in terms of possibilities for local people.

All this presented situation provides quite clear overview of business environment in Lithuania, especially that concerns rural areas and SMEs there. People in rural areas, involved in any kind of business, interested in starting business are seeking for the innovative solutions and entrepreneurial opportunities due to alternative activities or diversified activities in rural areas. One of the possibilities more detailed in this article is social entrepreneurship and social enterprises in rural areas. Because EU funding for agricultural activity comes to the end in 2020. The year 2018-2019 is the right possibility for acting of local action groups (LAG) in rural areas. The groups are interested in project development with social orientation. Especially the time is favourable now because of the announced calls under special programmes. The Ministry of Economy provided some guidelines of social entrepreneurship in 2015 (LR Ministry of Economy, 2015). The possible applicants should use them for the filling proposals under the announced calls. The guidelines are quite abstract and, in some way, lacks operative clarity. That is way learning projects now are devoted to social entrepreneurship.

Social enterprises could be one of the solutions for rural areas. But people still lack information and knowledge about the essence and process of social business, the activities and the added value creates such kind of business or established social enterprises. The important aspect in any discussion of social

entrepreneurship relies upon the allocation of resources, which leads to the creation of new enterprises. Mair and Marti (2006) perceive social entrepreneurship as a process of creating value by combining resources in new ways. Secondly, these resource combinations are intended primarily to explore and exploit opportunities to create social value by stimulating social change or meeting social needs. Third, researchers viewing social entrepreneurship as a process emphasise that it involves offering services and products but can also refer to the creation of new organisations. The authors argue that the profit motive of entrepreneurship can be a partial motive for social entrepreneurship as it might be presumed that the motives for social entrepreneurship can be, for example, personal satisfaction or fulfilment. It is also said that entrepreneurship in the business sector also has a social aspect. Drayton (2002) emphasises the strong ethical fibre of the entrepreneur. Societal focus appears strongly related to the character of entrepreneurs, as such; people are frequently very active in society because of the nature of their behaviour and character features, as well as the skills and abilities, which the social entrepreneur possesses. The dual mission – financial and social sustainability – of social enterprises shapes the processes of opportunity recognition and exploitation in that value capture is tied, either directly or indirectly, to social value creation (Doherty et al., 2014). Such a hybrid nature of social enterprises increases the complexity of management processes. In terms of LAGs the hybridity provides possibilities, but together it provides and some difficulties combining public and private resources and interests. In these enterprises, the activities of different partnerships are involved as well (Thompson, 2002; Doherty et al., 2014).

Two distinct types of problems are frequently solved by social enterprises. The first one is financing problems, which are related to the social mission of such enterprises and without any defined profit because of their activity. Social enterprises lack support from traditional financing institutions. Therefore, the demand for special financing instruments remains in this sector.

The other group of problems inherent in social enterprises is related to human resource management. Social enterprises suffer shortages in terms of the skilled labour force, sometimes due to financial problems, sometimes perhaps related to the specific activity of social enterprises. Attracting volunteers and minor groups is a specific issue with different managerial aspects. Work with minor groups' demands managerial capabilities and the skills effectively solve various situations and concerns arising from casual activity. Voluntary work has its own issues based on, for example, unpredictable resources in the appropriate moment, the motivation of the work force, the amount of free time allocated to different tasks, and so on. However, it should be taken into consideration that volunteers in most cases are young people, especially students. That could become a precondition for the involvement of young people in creating social enterprises. They are full of entrepreneurial ideas and need to see entrepreneurial opportunities and exploit them.

Family farming remain very important in rural areas and the activities of family farms could be diversified for being more innovative and competitive. It is important to measure family farms and divide them from other kind of firms. This issue comes from the different essence of how family business was started and created. In family farms, personal relations matter even more than in standard type of farms. Solidarity and good relationships come as the core for successful development of family farms. Especially when it takes to solve strategic decisions and make innovative changes in the farm. Because often innovative solutions are based on significant financial investments where common decision remains very important. In Lithuania obstacles remain for family business development. They can be named:

- Lack of legal acts concerning family business;
- Poor managerial traditions of family farming comparing with other EU countries;
- Lack of financial resources for innovative growth;
- Poor family business including family farming culture and lack of values keeping families together (poor involvement of young people in their family business);
- Lack of interest of family farmers in diversified activities including social entrepreneurship in rural areas.

Family farms could be involved in social entrepreneurship in diverse ways as well. Firstly, it depends on activity they are performing. Now, the biggest part of family farms is basically traditional growing wheat

and for the big farms it is profitable business. But if we talk about smaller farming profitability remains smaller and riskier because is balancing on inputs-outputs turnover. Profit could be used just for casual needs but not for the development of the farm. Legally social entrepreneurial activity could not be supported than it remains as agriculture activity fulfilled by the farmer. It means farmers should try other legal forms for some additional activities in their lands based on social entrepreneurship principles (Astromskiene, Gargasas, 2013). Entrepreneurial skills and abilities allow to provide more innovative activity, find more competitive ways of acting in the market because it creates competitive advantage. The mentioned measures require additional research and data for development of appropriate instruments and plan for family farms how to improve their situation in quite narrow market. Any innovative and progressive managerial knowledge should be considered as worth of deeper research and economic evaluation in seeking to provide grounded solutions for farmers.

## Conclusions

The situation for Lithuanian SMEs and farms remain quite challenging because of various problems related with market, financial resources, social economic policy etc. People involved in any activity in rural areas of Lithuania and trying to find solutions for activity development and/ or new ways for being in the market successfully. These ways are or can be related with social entrepreneurship and creation of social enterprises as well as being involved in social business. Hybrid essence of such kind of business provide new opportunities and, of course new challenges. SMEs need special attention form public institutions in terms of consultancy, favourable tax policy, motivated labour force.

Farmers being supported from EU funds till year 2020 had better conditions than other kinds of business in rural areas. But the financing period is coming to the end and farmers are alert about their situation and growing competitiveness. Support for family businesses, promotion of families' businesses in terms of good examples for others could be important part for other farmers, especially their children to stay in rural areas and try to develop the farms or other businesses in their native places.

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