

# Rural Tourism, Rural Economy Diversification, and Sustainable Development

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## Abstract

This paper provides an overview of patterns in farm, agro and rural tourism development in a way of farm, agro and rural economy diversification to achieve economic and environmental sustainability. The importance of rural tourism in the rural economy is increasing by farm, agro and rural economy diversification addressing its multifunctional development. The European Union policies are targeting both, farm and agro diversification as well as rural economy diversification. Farm, agro and rural entrepreneurship are seen as an effective means promoting rural economy development and its long-term sustainability.

Key words: European Union policies, rural tourism, farm diversification, multifunctional development, entrepreneurship, destination marketing

## 1 Introduction

Rural and farm-based tourism in Europe has a long-tradition (e.g. Sharpley and Vass, 2006). During the last fifteen years rural tourism development and farm diversification into tourism have been strengthened by few factors. Firstly, with the decline of the direct relative economic importance of agriculture in the economy, agriculture is on one side becoming more specialized to gains efficiency and competitiveness from economies of scale, but inter-sector diversified to gains efficiency and additional incomes from economies of scope in providing multifunctional activities on the other. Among the latter diversified and multifunctional activities is tourism on farm, which gains in the importance in locations with several natural, cultural and some other attractions endowed rural areas. However, rural tourism in most European Union (EU) countries is seen in a broader context of rural economy diversification rather than farm diversification to generate additional employment and incomes (e.g. Peña and Jiménez, 2004 for Spain as well as for some other EU countries). In most of developed EU countries, the importance of rural tourism in the rural economy employment and incomes is greater than the role of agriculture (e.g. Hill *et al.*, 2005 for the United Kingdom - UK). Secondly, with transition from a central planning to a market economy and associated farm and agricultural restructuring, in most of the New Member States of the EU from Central and Eastern Europe, rural and farm tourism have become a new market niche, which was underdeveloped during the previous system (e.g. Bojnec, 2004; Rozman *et al.*, 2009). The supply of rural- and farm-based tourism in most of these countries is determined by demand-side factors, but also by entrepreneurial spirits in rural areas, farm diversification and even farm specialization into farm or agro tourism due to new marketing opportunities, farm-employment, income and similar reasons. Thirdly, the reform of the Common Agricultural Policy (CAP) of the EU has stipulated shifts from market-price support measures towards direct payments and rural development providing new opportunities and challenges for more environmentally friendly and bio-production, but jointly with the new

rural development policies supporting multifunctional development, particularly rural and farm tourism development. Finally, development of rural tourism is a priority for most of governments of the enlarged EU. In an absence of a specific sector policy for tourism development in the EU, this is a challenge for policy makers to encourage, complement and support local actions in tourism development, investment and similar activities in the tourist sector development, activities associated with culture, sports and other hospitality and leisure activities in rural areas where in the world tourist markets there is a continues increase in demand for recreation, leisure and tourism (e.g. Tribe, 2005).

The paper focuses on private entrepreneurship in rural areas with examples of good practices in entrepreneurial investment and business activities, marketing and quality in product diversified tourism development in the rural areas. To promote development of ideas and good practices is only initial steps in some remote and less developed EU countries in a way to develop rural capacities by promoting cooperation between EU member states and exchanges of good practices (e.g. Armstrong and Taylor, 2000). However, the most important is the development of rural service economy, where tourism in several rural areas can be an engine of recovery to tackle rural incomes decline and depopulation in rural areas. The paper draws attention to rural tourist destination development applying advance managerial, entrepreneurship and marketing activities with brand product development, joint promotion and marketing activities in rural areas where are rural tourist attractions and rural tourists' strengths to be developed in more diversified rural tourism based economy, which part of it is a farm or agro tourism development. Issues of entrepreneurship underlying innovative approaches in farm and rural tourism development are examined with respect to the segmented rural tourist products such as wine tourism development as opportunity and challenge in product diversification and product mix in rural development, which require developing new managerial and entrepreneurial knowledge and skills in rural areas. These issues are also related to environmental

policies, protection of rural identity, and landscape in rural development and sustainability goals in the context of rural communities for tourism development (Jurinčič and Bojnec, 2009).

## 2 What is rural tourism and how important it is?

Rural tourism in its long tradition in Europe occurred in reach naturally endowed environment such as in the Alpine and Mediterranean parts of Europe as well as most recently all over the rural areas in Europe (e.g. Hummelbrunner and Miglbauer, 1994; Oppermann, 1996; Sharpley and Vass, 2006). There is some confusion in literature on use of terminology and meaning of rural, agro and farm tourism. Most of theoretical and empirical work on rural tourism has been conducted so far among specialists and scholars dealing with subjects on recreation, leisure and tourism (e.g. Nillson, 2002; Sharpley and Roberts, 2004; Sharpley and Vass, 2006), but recently also by agricultural economists (e.g. Snowdon, 2005). Whereas in literature there is much clearer distinguish among much broader rural tourism and more narrow tourism on farm, the terminology and practical meaning among EU countries vary considerably due to different tradition, nature of rural, agro and farm tourism, and different associated tourist supply, social events and their providers (see also European Commission, 2006). Rural tourism is a broader term and differs from agriculture, forestry and fishery. Rural tourism as a diversification of rural economy provides opportunities for expanding rural economic activities, generates an influx of money from urban areas and from abroad, and maintains the service base in the region. Farm tourism is a part of rural tourism, which is often based on tradition, nature and social tourism. As it is illustrated in Figure 1 below, rural tourism covers much more than only farm or agro tourism. Tourism on farm is limited to the existing declining number of farms that have seen its farm diversification efforts into tourist activities as employment and income opportunity. Agro-tourism besides tourism on farm covers also other tourist activities that are related to activities of agriculture,

food processing, forestry, and similar. Rural tourism captures tourism on farm and other agro-tourist activities, but particularly the most significant part of rural tourism are tourist rural recreational, leisure and other tourist service economy activities with significant multiplicative effects on the other rural economy activities. In several places around Europe and the world, rural tourist recreational, leisure, and other tourism activities such as business tourism, religious, health and some segmented tourist supply represent the most significant part of the rural economy that provides not only tourist accommodation facilities, but particularly different opportunities for health, leisure, sport, culture, business and similar activities and tourist events for domestic and foreign tourists, visitors and residents from urban and rural areas.

Figure 1: Farm, Agro and Rural Tourism



Rural tourism, agro tourism and farm tourism differ in territory characteristics, in service provider characteristics, main offered product, and additional offered products. According to the territory characteristics, rural tourism is situated on rural territories with natural and cultural attractions such beautiful lakes, mountainous, natural forestry parks and similar, whereas agro-tourism is situated on agricultural territories such agricultural land, meadows, pastures and forest land, and farm tourism is situated on farmer's farm and its environment. Similar, differences are in the service providers. Rural tourism is supplied by different profit enterprises and non-profit oriented organizations in rural community and rural areas. Suppliers of agro-tourism are farmers and their organizations, whereas tourism on farm is supplied by owners of tourist farms and their associations. Flescher and Tchetchnik (2005) for Israel argue that rural tourism enterprises are an alternative to agriculture as rural tourism enterprises on working farms differ from such enterprises without agricultural activity. More

specifically, according to them, the farm activities on a working farm are of no value to the visitors, but farmers are likely to benefit from farm diversification into tourism at such farm by using labour more efficiently. More rural than farm diversification is important for rural tourism development where important is concentration of tourist suppliers and attractions that create positive beneficial externalities for a single supplier and for rural tourist destination. Therefore, there are also differences in main tourist attractions and associated main offered tourist products and services. Main offered product of rural tourism is rural environment with natural and cultural tourist attractions, sports and recreational activity that are basis for rural holidays. In agro-tourism, main products are those of farms, rural way of life, rural holidays, and trades of agro-food products. Main distinguish product of farm tourism has been life in farmer's farm, but has been changing over time as several farms are recently offering only accommodation and some of them specialized in wellness tourism. As the additional products that are offered and promoted in rural tourism there are holiday villages, rural hotels, private houses, camping sites, eating places, tourist and other shops, interesting places, and providing tourist information and similar tourist services. In agro-tourism, additional offered products and particularly tourist places are lodging at active farms, agricultural companies, meal places, and shops of recreational goods. Among additional products on tourist farms are lodging at active or traditional farm, board of farm products and different recreational activities as well as some other social and cultural events. Rozman *et al.* (2009) assessed tourist farm service quality for a sample of seven tourist farms in Slovenia. They employed a multi-criteria modelling methodology for ranking tourist farms to assess service quality. They found that farm tourism is a significant source of supplementing farmers' incomes.

According to the statistical definition of economic activities, which is based on the Eurostat's NACE (in French: Nomenclature Generale des activites economiques dans les Communautes Europeenes) classification, rural tourism activities are mostly included into H-activity covering hotels and restaurants,

including all kind hotels and restaurants in rural areas. On the other hand, a part of rural tourism, which represents tourism on farm as well as agro-tourism as a supplementary farm activity, is mostly included into A-activity covering agriculture, hunting and forestry, and B-activity covering fishing. The NACE classification provides possible statistical comparisons between urban and rural areas, comparisons between countries, and comparisons over time. Besides statistical nature and comparison purposes, the NACE classification of economic activities has served as a basis for different taxation policies within countries, different investment and some other economic policies across NACE activities. According to EU specific sector policies, greater preferences so far have been granted to the activities A and B from CAP than to other rural economic activities (*e.g.* Hill *et al.*, 2005). However, to achieve greater synergies and efficiency in rural economy development there is a greater need for interdisciplinary work and cooperation in rural tourist destination development as well as in general rural development and local employment development.

Therefore, diversification efforts of rural economies and creation of new jobs in rural areas have been supported by EU policies. Hill *et al.* (2005) argue that greater or majority of EU financial flows to rural areas have been directed towards agriculture. Such development streams have been questioned by several researchers as agriculture represent minor role in the rural economy, whereas most recently, for example rural tourism and service economy represent the most significant part of rural economy in most of developed parts of the EU. Rural tourism development is based on different factors of local development and thus has become one of the most significant factors of rural employment development. These rural factors of tourism development include various natural endowments, landscape and spa tourism, rural heritage and cultural factors, social events, green and eco-tourism. Besides this, rural areas and villages are becoming favourable place for living, demanding different tourist offers and thus providing opportunities for rural tourist supply development. As can be seen from Table 1, the occupational composition by the industry sectors between urban and rural

areas in developed EU countries such as England is rather similar. The most significant single sector in the rural economy is branch distribution, hotels and restaurants, followed by public administration, education and health; manufacturing; and banking, finance, insurance and similar. It is interesting to note that agriculture and fishing are among the least significant branches in the rural economy in England. Only in energy and water supply are employed less people than in agriculture. In the primary sectors, manufacturing and construction there is employed less than one-fifth in urban areas and less than a quarter in rural areas. The majority of employed in urban and rural areas in England are in services where rural distribution, hotels and restaurants play a considerable direct role in the economy as well as indirect multiplicative role on other sectors such as transport and communications, banking finance and insurance as well as on agro-food sector, which supplies food, but might supply also environmental and similar services to health, leisure, and tourist activities.

**Table 1:** Rural-urban employment by sectors in England, 2002 (%)

	Urban	Rural
Agriculture and fishing	0.3	2.6
Energy and water	0.6	0.8
Manufacturing	12.7	15.4
Construction	4.2	5.1
Distribution, hotels and restaurants	24.1	26.7
Transport and communications	6.5	5.2
Banking, finance and insurance, etc.	21.9	15.1
Public administration, education and health	24.3	24.1
Other services	5.3	5.1
All	100.0	100.0

Source: Hill (2005, p. 62).

### 3 Farm, agricultural, and rural economy diversification into tourism

Rural tourism represents primarily rural economy diversification where rural tourist and associated service activities create jobs for redundant labour on agricultural farms and for rural and other jobs' seekers. These new jobs require different knowledge and skills than agriculture, thus creating new demands in rural economy for education in changing rural economy structures. Agricultural and farm diversification is often a process, which follows the overall process of rural economy diversification. Multiple-job holding in rural communities, part-time farming, forestry, fishery and aquaculture occupations, and other multifunctional activities on farms diversify farm employment and incomes (e.g. Dickey and Theodossiou, 2006; Rozman *et al.*, 2009). If a farm is situated close to rich endowed natural, cultural and similar attractions, this often provides opportunities for farm diversification in tourism on farm. Besides supply side factors and entrepreneurial spirits in rural areas, rural, agro and farm tourism developments are associated with demand-side factors of emerging new market demand niches. Farm, agro and rural tourism development are also promoted with the CAP reform with a shift of supports from market-price supports toward rural development, environmentally friendly and bio-production. Multifunctional rural and farm development go in line with rural and farm tourism development. Rural, agro and farm tourism are on one side important for rural and farm employment and incomes, but on another side they are important for leisure and tourist activities of tourists. Rural tourism is also a priority for most of national governments in EU. Local development requires local actions, investment and similar activities. Therefore, promotion of rural, agro and farm tourism is becoming a part of national wide promotion campaigns related to culture, sports and other hospitality and leisure activities in rural areas.

However, farm, agro and rural tourism activities vary considerably across EU countries. In general farm



tourism is as an alternative to mass tourism where important are local conditions for rural tourism development and farm locations. There is evolution in trends in rural and farm tourism developments. Rural tourism is becoming global and thus there are similar patterns in development as in tourism in general, but with much greater preference on environmental and ecological issues. Tourism on farm is also losing its ideological background. Most recent developments are that there are not necessary special activities for the guests at the farm and development of wellness tourism. This means that also tourism on farm tries to imitate from some general patterns in tourism development or even offer some innovative approaches related to farm and village life. In most of EU countries different categorization of tourist farms are introduced, making quality categories and quality price differentiation. In general, they might still provide (inexpensive) accommodation in the farmhouse or in farm apartments, which is often the responsibility of the “farmer’s wife”. However, there is an ongoing quality market segmentation as well as specialization among tourist farms towards specific market niches.

Networking between the tourist farms and between tourist farms with the tourist economy is organized differently by EU countries and tourist destinations due to differences in importance of tourist farms and rural tourism, and organizational features by EU countries. Among major determinants of demands for rural and farm tourism are richness of attractions and locations as well as value of money for quality of tourist services. Except of some attractive locations, tourist farms experience less than average length of visitors’ overnight stays and lower occupancy rate of tourist beds (*e.g.* Peña and Jiménez, 2004; Bojnec, 2004). Farm tourism is also less widespread and important in world-known tourist destinations, but there is an opportunity to be better integrated with them. Tourist farms aim to explore advantages in a wider tourist destination as a reason for their rapid growth in different forms such as excursion farms (warm and cold meals and beverages), tourist farms with accommodations, self-catering homes with tourist beds, wellness, and similar. They are investing in physical tourist capacities, but also in

a staff education (knowledge of languages, computer and Internet knowledge), product development, quality upgrading and classification scheme, and promotion. Nevertheless, farm tourism is growing also due to favourable economic policy and government support measures towards its development such as preferable taxation, other fiscal and investment treatments. Farm tourism businesses is often defined as a supplementary farm activity (and less often as an independent entrepreneur as in any other economic activity) with crucial importance of different sales channels, particularly sales to tourists and visitors at the farm. However, such policy measures may discriminate farm and agro tourism from other rural tourism and small tourism businesses in villages: inns, small family-run hotels and village restaurants. Rural tourism is considered widely as thermal spas and health resorts, natural environment and natural attractions, cultural and historical attractions, heritage and crafts, but also related to agricultural products, various agricultural and sport activities in the countryside. Rural, agro and farm tourism are promoted by individual businesses, by joint promotional, marketing, advertising and information activities of their national or international associations as well as by a country-wide tourist campaign, the Internet, intra- and cross-border cooperation.

#### **4 Rural, agro, and farm tourism entrepreneurship, and sustainability**

The growth of rural, agro and farm tourism is related significantly to entrepreneurship and innovative approaches in enhancing tourism development attracting particular tourist segments and visitors spending for rural tourist markets (*e.g.* Kastenholtz, 2005). There are many examples of good practices across EU countries. We are referring to the surveys conducted using written questionnaires in wine tourism development in Slovenia (Bojnec and Jurinčič, 2006a, 2006b; Jurinčič and Bojnec, 2006) as well as in comparison of Slovenia and Croatia, which is a candidate country for EU membership (*e.g.* Bojnec, Jurinčič and Tomljenović, 2006, 2007). Farm and agro tourism are an opportunity and

challenge in product diversification that require developing new managerial and entrepreneurial knowledge and skills in rural areas. Rural tourism is a challenge for rural diversification and broader rural economic development.

Examples of good practices are often used to present analysis and disseminate exchanges of good practices in rural, agro and farm tourism within and between EU members as well as candidates for EU membership promoting cooperation between EU member states (e.g. Bojnec, 2004). Whereas in developed part of the EU private business is very familiar and keen operating in a competitive market environment and efficient in internalization of EU and other policies, there is less so in some less developed rural areas, particularly in some new members states of the EU. In the latter might be some needs for awareness among policy makers to encourage entrepreneurial activities in rural areas. However, setting up of private business and its operation in product diversified rural tourism development is solely a decision by private businesses and other similar business organizations.

The enlarged EU provides opportunities for growth in tourism demand. So it is also a challenge for rural, agro and farm tourism to take a part in this increasing cross country tourist flows. On rural tourism business is to apply proper managerial, entrepreneurship and marketing activities as well as recognized brand products that can be promoted and marketed for the benefits of rural areas.

Finally, farm, agro and rural tourism development are in cohesion and synergy of EU policies, which are broader importance for sustainable long-term development: environmental policies, protection of rural identity and ways of life, landscape in rural development and heritage, and sustainability goals in the context or rural communities.

## 5 Conclusion

Farm tourism pluractivity is seen as an opportunity for farm employment and income diversification. Often in behind of these processes have been seen gender issues within the farm business providing employment for women on the farm, but most recently farm tourism specialization is becoming a family farm business. Farm tourism is a part of agro-tourism, but both of farm and agro tourism represent only a part of rural tourism, which in several rural places in Europe as well as in some part of Australia, New Zealand, the United States of America and Canada is becoming one of the most significant single economic activities in the rural economy. Therefore, rural tourism is much more than farm or agricultural diversification, but more specifically, it is the rural economy diversification efforts to develop rural economy from primary-manufacturing based into the service-based economy.

The paper contributes to the conceptualization of the framework to investigate causalities and synergies between rural tourism, rural economy diversification, and sustainable development. This can be further developed by empirical survey studies, which are indicated in the paper. This can be important for further development of rural tourism science as well as for practice. The EU structural, cohesion, rural development and other territorial development policies have played significant role in rural economy diversification towards service based economy. The strengthening of territorial factor endowments to establish more efficient productive system in rural areas and the role of knowledge based economy in the local economic development are ongoing processes of the EU rural economies transformation from agrarian-based into tourism and service-based economy. The crucial role of knowledge institutions is seen similar as in urban areas as rural economy and remote villages have become part of a global competition and virtual economy using advanced information and communication technologies in every day businesses, marketing, promotion and similar activities. However, peripheral areas and their problems such as scarcity of the resources, both material and immaterial, are still more widespread in rural

areas. Therefore, local in global space and innovation in periphery require targeted investments and other policy approaches where local entrepreneurial spirit and initiative from farmers, local entrepreneurs and people living in rural areas remain the most crucial in local development, including in farm, agro and rural tourism, which attractive locations and businesses are also becoming in an interest of global business investments. These are also issues for future in-depth research on rural tourism, rural economy diversification, and sustainable development.

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