PROCEEDING
THE INTERNATIONAL CONFERENCE ON SMALL-SCALE PRODUCER AGENCY IN THE GLOBALIZED MARKET

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THEME- 2.
PUBLIC AND PRIVATE INSTITUTIONAL ARRANGEMENTS THAT
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ORGANIZATIONS AND VALUE CHAINS

ENTREPRENEURSHIP OF FARMERS WORKING ON DIFFERENT
TYPES: CASE STUDIES OF VEGETABLE FARMERS IN WEST JAVA,
INDONESIA

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A number of studies related to small-scale farmers indicate that there are two alternative ways to enhance their performance: either through participation in contract farming or farmer organization such as cooperatives. However, both ways are criticized. For instance, in the case of cooperatives farmers may have little voice over strategic decisions, that may diminish their entrepreneurial orientation, whereas contract farmers might get exploited by their contractors, so autonomous farmers could be better off. Our study aims to investigate how entrepreneurial orientation of different types of farmers (in contract farming, in cooperatives, and autonomously) affects business performance. Data collection was conducted by using in-depth interviews and farm visits in three localities in West Java where most vegetable farmers have access to non-traditional markets. Findings show that farmers conducting collective contract agreements with buyers demonstrate higher entrepreneurial orientation and performance than the other types. Implications are offered for policy makers to promote entrepreneurship to enhance performance of farmers.

Keywords: contract farming, cooperative, entrepreneurial orientation, performance.

Introduction

Small-scale farmers play an important role on producing agricultural products, including food. However, they are vulnerable on economic dynamics and climate changes. For economic dynamics, they have to face changes in markets that more actors are integrated in the supply chains. To deal with supply chain integration, small-scale farmers have to manage their farms and business activities that fit with supply chain governance. For climate changes, small-scale farmers have to deal with unpredictable seasons that might cause serious impact to their farm activities, because of heavy drought and high rain fall. Innovation to cope climate changes is needed to help small-scale farmers minimize losses due to these uncertainties.
A number of studies address small-scale farmer development due to their important role as food producers in most developing countries (Bijman et al., 2007). These studies show that to enter high value markets, smallholders find difficulties in pursuing high quality standards, consistent delivery, and large volume (Lu, 2007) due to lack of economies of scale, lack of information and bargaining power, high market risks, and high transaction costs (Bijman et al., 2007).

To improve small-scale farmers’ ability to participate in high value markets, several studies indicate two alternative ways. The first way is through participation cooperatives. Cooperatives can support smallholders by providing inputs, aggregating their surplus output, achieving scale economies in sales, and strengthening their bargaining position (Bernard and Spielman, 2009). The second way is through participation in contract farming, where small-scale farmers can reduce production costs and gain access to information, technologies, marketing channels, managerial and technical assistance, and credit (Glover, 1987, Key and Runsten, 1999, Kirsten and Sartorius, 2002).

However, under certain conditions, smallholders may face disadvantages when participating in cooperatives or contract farming. For instance, small-scale farmers in cooperatives may have little voice over strategic decisions that may diminish their entrepreneurial behavior, the cooperative might prohibit their members to access new information outside of the association (McDermott et al., 2009), or fail to enhance the members’ performance (Chacar and Vissa, 2005). In the case of contract farming, the small-scale farmers might lose their flexibility in their choice of farming activities and might get exploited by their contractors (Bijman, 2008). In both instances, autonomous farmers could be better off since they are more independent in making decisions. Yet, the literature is not conclusive on answering the question what factors make small-scale farmers, working under different types of organizations, achieve better performance.

In this study we focus on the vegetable small-scale farmers in West Java who represent the farmers who work under different types of organization. They participate either in cooperatives, in contract farming, or as autonomous farmers. Cooperatives support the members with resources, such as micro credit, technical assistance, and access to markets. Contract farmers deal with contractor companies to produce particular products with informal agreement or with formal contractual agreement. Autonomous farmers work independently and sell their products mostly to local traders or nearby traditional markets. Generally, they prefer work without engaging with cooperatives or contractor companies due to payment reason.

Each farmer type – cooperative members, contract farmers, or autonomous farmers – has different attitude to their buyers and competitors that related to their entrepreneurship. We argue that different type of farmers has different entrepreneurial behavior, particularly entrepreneurial orientation (EO). As members of input and marketing cooperative, the farmers put their market risks into the cooperative that has deals with buyers. As contract farmers, they share their risks to contractor companies, so they tend to get stable price. Autonomous farmers have to totally cover price fluctuation by themselves.

Many studies show that EO affects business performance of firms. Our study aims to investigate how EO of different types of farmers (in contract farming, in
cooperatives, and autonomously) affects business performance. We need to understand why some farmers have better business performance in terms of sales, farm assets and quality, and to what extent EO affects their business performance.

We will present case studies on vegetable farmers in West Java who produce either non-traditional vegetable for non-traditional local markets and export markets or traditional vegetables for traditional markets. These case studies provide empirical material concerning the effect of entrepreneurial orientation on the business performance of vegetable farmers.

**Conceptual framework**

Entrepreneurial Orientation (EO)

Entrepreneurship focuses on exploring and exploiting opportunities by constructing current and new resources to create values (Zahra, 2005). Study on entrepreneurship has developed widely in many different levels, from individuals, groups, to firms. The concept of entrepreneurial orientation addresses at the firm level that is consistent with classical economics regarded an individual entrepreneur as a firm. Small firm is an extension of the individual entrepreneur who leads the firm (Lumpkin and Dess, 1996).

Study on entrepreneurial orientation is build upon investigation on its dimension. Previous studies construct the dimension differently. The initial concept developed by Lumpkin and Dess (1996) suggests five dimension of an entrepreneurial orientation: autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness. Further studies elaborate the dimensions differently. For instance, some studies concentrate on two dimensions, such as proactiveness and competitive aggressiveness (Lumpkin and Dess, 2001) and proactiveness and risk taking (Grande et al., 2011). Another study focuses on three dimensions: innovativeness, proactiveness, and risk taking (Avlonitis and Salavou, 2007). Because our study is conducted in small-scale farmers that show characteristics as simple firms (Miller, 1983), we follow innovativeness, risk taking and proactiveness as the dimension of entrepreneurial behavior that relevant for this context (Grande et al., 2011).

**Business performance**

In this study, we examine business performance in terms sales, farm assets, and quality perception. Farmers with sales growth orientation will focus on product diversification, such as producing high value products (e.g. organic vegetables) (De Lauwere, 2005). Farmers who are concern with business growth are willing to invest in farm land to increase their business scale, or are willing to invest in farm equipment to increase their productivity or minimize their production cost. Quality perception shows farmers subjective measurement on how satisfied their buyers on the product quality. Below is presented our research framework.
Methodology

Our study is an exploratory study on how entrepreneurial orientation affects business performance of vegetable farmers working on different types. The data collection and analysis are guided by the research framework. We divide our case into several steps. First, we develop the criteria of farmers as farm firms as our unit of analysis. In our study, farm firms refers to the small agricultural firms that operated either by a group of smallholders or individual farmers who have independency in deciding to whom they sell their products. Second, we elaborate three case studies, i.e. cooperative members, contract farmers, and autonomous farmers. Based on experts’ recommendation, we select two farmers in each type, i.e. cooperative members, individual contract farmers, collective contract farmers, and autonomous farmers, in three localities, i.e. Bandung, Bogor, and Cianjur. Third, we conduct data collection by using in-depth interviews with owners or management team of farms, followed by farm visits. We prepared the case studies between July 2011 and January 2012. Finally, we analyzed the data by comparing our research framework to our finding, and then we check its relationship.

We provide cases of cooperative members, individual contract farmers, collective contract farmers, and autonomous farmers. For cooperative members, we present the case of members of Cooperative Mitra Sukamaju (MS) in Cisarua-Bandung and Cooperative Mitra Tani Parahyangan (MTP) in Warung Kondang-Cianjur. Both cooperatives provide farm inputs and do collective marketing. Members of MS are paprika farmers, whereas MTP’s members produce different kinds of vegetables. For individual contract farmers, we provide the case of farmers in Bogor who have contractual agreement with PT Saung Mirwan – a distributor of vegetables and flowers to retail and export markets. For collective contract farmers, we present the
case of farmers groups in Bandung who have contractual agreement with PT Alamanda Sejati Utama – an exporter of horticulture products. For autonomous farmers, we provide the case of farmers in Bandung who have no contractual agreement with buyers and do not participate in any cooperative.

Result

In this section, we present the relationship on entrepreneurial dimensions in terms of innovativeness, proactiveness, and risk-taking, to business performance on each farmer type.

Entrepreneurial Orientation

In this section, we present entrepreneurial orientation dimension in terms of innovativeness, proactiveness, and risk-taking. Innovativeness shows tendency of farmers on new innovation in products or processes. Proactiveness shows proclivity of farmers to anticipate future changes toward customers and competitors. Risk-taking shows farmers' willingness to take a part in high-risk activities.

Innovativeness

Cooperative members and individual contract farmers show the same characteristics on innovativeness. For product innovation, such as new varieties or new products, the cooperative members rely on trials done by the cooperatives, the same as individual contract farmers who depend on the company. Both cooperatives and the company strictly control product specification cultivated by the farmers to meet customers’ requirements, and support the farmers with certain seed types. There for, the farmers have limitation on product innovation and tend to focus on existing technology.

Even though they are less innovative in product innovation, the cooperative members and individual contract farmers demonstrate efforts in process innovation. They do trials either to improve productivity of existing products or to minimize production cost. For instance, the members conduct trials on pest control, formulate organic fertilizers, and apply certain technique for fertilizers or pesticides. They do these trials on a small piece of land before applying to whole farmland.

Collective contract farmers show more innovative in product and process innovation. The contractor company asks the farmers for specific product quality and quantity, but gives them flexibility how to meet the requirement. The company does not support the farmers with seeds or other farm inputs, so it gives opportunity for the farmers to explore new varieties that meet the requirement. The company also demands new products for their export markets to the farmers, such as vegetables with new colors, so it gives challenges to the farmers to innovate in new products. Generally, they adopt new products from seed companies.

Collective contract farmers also actively do trials on process innovation, such as pest control, improved greenhouse construction, and fertilizer formulation. They access the knowledge for these innovations either from public research institutes and universities or from their own experiments.
Autonomous farmers demonstrate less innovative in product innovation. They focus on existing products and technology. However, they are willing to try new products if their fellow farmers recommend them to do so. Decision to produce the new products or not depends on the experiment result or market demand for the products. For process innovation, the farmers do their own experiment to improve the existing products, such as fertilizer and pesticide applications.

Proactiveness

The cooperative members sell their products mostly to the cooperatives and very few of them sell to local traders for products that do not meet the cooperatives’ requirements, the same as with individual contract farmers who sell their products mostly to the company. Both farmer types show less proactive to initiate an action toward their markets. The cooperative members tend to wait and see actions from the cooperatives or the company, such as changes in prices, cultivation time, and technology.

The collective contract farmers show more proactive to initiate actions towards customers and competitors. The farmers diversify their markets, not only with the exporter but also with other buyers, such as restaurants and retails. This action then is followed by their competitors to enter the alternative markets beside the exporter.

Autonomous farmers tend to respond the action taken by their fellow farmers or their customers – local traders - instead of initiating the action. For instance, they will produce certain products if they got information from their customers that the product price will go up in the coming months.

Risk-taking

The cooperative members, individual contract farmers, and autonomous farmers are very careful to take a part in high-risk activities. They prefer to be in activities with certain and normal returns instead of activities with high returns but risky. They use financial sources mostly from their own or from their relatives, and very few of them use loans from banks.

The collective contract farmers show willingness to engage in high risk activities. For instance, they take a part in a project of new greenhouse type funded by bank loans. Although they engage in debts, they believe the project will help them to increase the productivity and quality of their products.

Business performance

We analyze business performance of farmers in terms of sales, assets, and quality performance. The individual contract farmers and the cooperative members show almost the same sales because they receive stable price from the cooperative or from the company. Both farmer types also demonstrate similar performance for assets that focus on investment in farm equipment. For quality performance, both farmer types feel that they customers are satisfied with their product quality. The collective contract farmers show higher sales because they have higher volume to different customers. The farmers invest not only in farm equipment but also in farmland to increase their economy scale. For quality perception, they feel that the customers are satisfied with their products. The autonomous farmers show unstable sales because they face price uncertainty in dealing with local traders. However, they prefer to sale
their products to local traders for quick cash reason. They invest mostly in farm equipment, and they feel that their customers are satisfied with their product quality.

Discussion

Regarding the dimension of entrepreneurial orientation, it shows that the collective contract farmers have higher entrepreneurial orientation than other farmer types. The collective contract farmers demonstrate more innovative, proactive, and risk-taking to fulfill market demand. Regarding business performance, the collective contract farmers also show higher performance in terms of sales and assets than other farmer types. We argue that there is a tendency of farmers who have higher entrepreneurial orientation to have higher performance.

Conclusion

In this study we develop a framework that helps us to how entrepreneurial orientation affects business performance. Innovativeness, proactiveness, and risk-taking are widely acknowledged that affect business performance.

Our result implies the policy recommendation. It shows that farmers who have more entrepreneurial orientation will show higher performance. Policies are needed to strengthen small-scale farmers’ ability to cope the risks, to innovate for pursuing market demands, and to be more proactive in exploiting market opportunities, emphasized on farmers who work autonomously. Institutional strengthening is needed for farmers who still work individually. Further studies are needed to explore more factors that influence farmers’ entrepreneurial orientation, such as networks.

Acknowledgement

Financial support from Nuffic – the Netherlands Organization for International Cooperation in Higher Education, is gratefully acknowledged. Moreover, we would like to thank the respondents of the cases for providing the opportunity to do in-depth case studies.

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