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## Research Article

### STRATEGY TO IMPROVE THE PERFORMANCE OF FARMER ECONOMIC INSTITUTION IN AGRIBUSINESS AT SUKABUMI, INDONESIA

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#### ABSTRACT

Institutional transformation in rural areas has been carried out through development the combined of farmer groups into farmer economic institutions. The research aims to analyze the capacity, role and performance, analyze the determinants of performance and develop strategies to improve performance the institutional of farmers' economy. The research has been conducted in Sukabumi Regency from August to November 2016. The research population is farmer who become member of farmer economic institution and the sample in this research is 80 people taken using stratified random sampling technique. Data were taken using questionnaires with instruments in the form of rating scale. The independent variables consist of individual characteristics, institutional capacity and institutional role and dependent variable is farmer economic institution performance. Data analysis used descriptive statistics and spearman correlation statistics. The result of this research can be concluded that the achievement of institutional capacity, institutional role and performance of farmer economic institution are 81, 25%, 80, 5% and 79, 5% respectively. The determinants of institutional economic performance of farmers are age, education, length of business, land area, social status, capacity and role of the combined farmer groups. The performance of farmers' economic institutions can be improved through optimizing the involvement of young farmers, farmers with relatively higher levels of education, increasing extension activities, training and apprenticeship; Enhance the capacity of the board and members; And intensive assistance to optimize the role of gapoktan as an economic institution of farmers.

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#### INTRODUCTION

Institution is one of important factors in the framework development of agribusiness system and enterprise. Agricultural institution with its various functions may become an umbrella or coordinating facility between subsystems in agribusiness system. The institution could be in the form of formal institution like the Indonesian Bureau of Logistics (Bulog), banking institution, and agricultural insurance institution, or informal institution which grows from the initiative of agricultural actors such as farmer/trader association, farmer groups, and combined farmer groups (gapoktan). The function and role of agricultural institution should be developed in order to support economy strengthening of country and society.

As mentioned previously, one of agricultural institutions in the development of agribusiness system and enterprise is the farmer groups and combined farmer groups. Regulation of the Ministry of Agriculture No. 82 year 2013 has listed the

function of farmer groups, namely as: 1) Learning class, 2) Media for cooperation, and 3) Production unit. Moreover, the regulation also mentions the function of combined farmer groups as: 1) Business unit which supplies Production Facility and Infrastructure, 2) Farm/Production Unit, 3) Processing Business Unit, 4) Marketing Business Unit, and 5) Micro Finance Business Unit (saving and loan). Based on the explanation regarding the function of farmer groups and combined farmer groups, it shows that combined farmer groups are able to support economic activity in rural area. Therefore, in order to realize this plan, combined farmer groups are required to transform themselves to further become an institution which is in accordance to the needs which continue to develop.

In 2015, the Agency of Extension and Agricultural Human Resources Development (Badan Penyuluhan dan Pengembangan Sumber Daya Manusia Pertanian) through the Agricultural Extension Center (Pusat Penyuluhan Pertanian)

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had implemented the growth and development of economic institution. One of regencies which became the target program is Sukabumi Regency. This activity is an effort to strengthen institutional capacity; thus, economic institution and its member which can perform agribusiness based on market driven consideration will grow besides increasing the ability of farming technic for product with high economic value.

According to the reference and pre-survey activity, information concerning the problems faced by farmers in accessing and interacting with the existing economic institution was obtained. It is assumed that the role and performance of economic institution has not yet performed as expected. The role of economic institution which is supposed to promote agribusiness in rural area has not yet done well along with the poor performance in driving rural economy, particularly agribusiness based economy in farmer perspective. A variety of programs to promote agribusiness through economic institution in order to increase agribusiness based rural economy has not reached its goal.

This study is aimed to descriptively analyze the capacity, role, and performance of farmer economic institution in agribusiness, to analyze the factors which determine the performance of farmer economic institution and to formulate strategy to strengthen the performance of combined farmer groups as farmer economic institution in Sukabumi Regency.

## MATERIALS AND METHODS

This study was conducted in Sukabumi Regency from August to November 2016. This research was a survey study. Based on its purpose, it is an explanatory study and based on its characteristic it is included in quantitative study. Research population was farmer who was also the member of combined farmer groups as farmer economic groups. Samples in this study were 80 people selected through the technic of stratified random sampling.

The data used consisted of primary data and secondary data with both quantitative and qualitative characteristics. Primary data were collected by distributing questionnaire through direct interview with farmers. To facilitate this study, secondary data were obtained from literature search of the Statistics of Indonesia (BPS), the Ministry of Agriculture, the Department of Agriculture of Sukabumi Regency, and the Agency of Extension Implementation for Agriculture, Fishery, and Forestry of Sukabumi Regency.

Independent variable in this research consisted of individual characteristic (X1) which included age, education level, non-formal education, length of business, land area, social status and economic status; institutional capacity (X2) and institutional role (X3), while dependent variable was the performance of farmer economic institution (Y). Research instrument was in the form of questionnaire consisted of question list. Variable of institutional capacity (X2) was expressed in 11 (eleven) questions. Variable of institutional role (X3) was developed into 15 statements. Variable of the performance of farmer economic institution (Y) was found in 31 questions. Choice of the answer for questions was done using rating scale at ordinal scale which moved from 1 (one) to 4 (four). Descriptive analysis was used to analyze the performance of capacity, role, and performance of farmer

economic institution. Furthermore, to analyze the correlation between the capacity, role, and performance of farmer economic institution, Spearman's rank correlation was applied.

The hypothesis of research is listed as follows:

1. It is expected that there is significant correlation between farmer characteristic, namely age, formal education, non-formal education, length of farming business, land area, social as well as economic status and the performance of farmer economic institution.
2. It is expected that there is significant correlation between the capacity and performance of farmer economic institution.
3. It is expected that there is significant correlation between the role and performance of farmer economic institution.

## RESULTS AND DISCUSSION

### *Achievement of Capacity, Role, and Performance of Farmer Economic Institution*

Based on the result of descriptive analysis, the capacity, role, and performance of combined farmer groups as farmer economic institution are presented in Table 1, Table 2 and Table 3.

**Table 1** The Capacity of Combined Farmer Groups as Farmer Economic Institution

No.	Indicators	Achievement of Capacity (%)
1.	Ability to perform regular meeting of member	90.75
2.	Ability to perform regular meeting of the board	81.25
3.	Ability to prepare joint planning	82.25
4.	Ability to enforce written regulation	79.50
5.	Ability to prepare financial administration	79.50
6.	Combined farmer groups are able to facilitate joint business	79.50
7.	Combined farmer groups are able to become the information source of agricultural technology	80.00
8.	Combined farmer groups are able to create partnership with other parties	79.75
9.	Combined farmer groups have the ability to grow capital	79.75
10.	Dedication of the board of combined farmer groups	81.00
11.	Ability of combined farmer groups to coordinate farmer groups	83.25
	Average	81.25

Based on the descriptive analysis presented in Table 1, it can be explained that the lowest value was obtained by indicator 4, 5 and 6 with achievement percentage of 79.50 percent. Those indicators were the ability to enforce written regulation, ability to prepare financial administration record, and to facilitate joint business. Confirmation on this condition showed that several boards of combined farmer groups said that the regulation has already been made based on mutual agreement. However, in some combined farmer groups, the regulation have not been documented in written form. Moreover, in several other combined farmer groups, the regulation has been written and documented, yet the member of combined farmer groups often had perception that the written regulation did not exist. Concerning the financial administration record, the case was similar to the written regulation in which the members of farmer group often have perception that the financial administration record was not managed well. Towards this

perception, some boards of combined farmer groups denied since administration record was already prepared in accordance to the ability of the board even though improvement in the implementation was still required. In addition, concerning the perception on low facilitation for joint business, it is expected to be caused by the transition time of farmer economic institution which was still short in time, thus cannot perform many facilitations despite several facilitation of joint business had been done.

Based on the solution on the analysis result and field finding above, combined farmer groups should increase the capacity and perform socialization to their member. Efforts to increase the capacity of combined farmer groups should be done to obtain capability in certain field which is as yet still relatively limited. Those fields are regarding the leadership to enforce written regulation, administrative ability to prepare financial record and ability to cooperate in order to facilitate joint business. Effort in increasing the capacity of combined farmer groups can be done through extension (Yuliani *et al* 2012, Riana *et al* 2015, Sumardjo and Firmansyah 2015, Anwarudin and Haryanto 2018), training (Ledwith and reilly 2014) and apprenticeship (Hasansulama 2005, Inwood and Sharp 2012). Furthermore, the second solution recommends the board to continue doing the socialization (Joose and Grubbstrom 2017). Result of field finding through depth interview on the weak perception of members toward several indicators showed the reason, namely less socialization performed by the board thus the members were lack of complete information. Therefore, socialization should be regularly done by the board to the member.

Table 1 indicates that the highest achievement was obtained by the first indicator, namely the regular meeting of member. Farmer perception on regular meeting was very positive. Field finding through interview to confirm this result obtained information showing that meeting of member was performed regularly, namely once every two months. Implementation of this regular meeting of member should be appreciated and maintained. However, the regular meeting should not only become a gathering, but should provide benefit for both the board and member. For the board, regular meeting of member can have a function as an event to transfer information, socialization (Joose and Grubbstrom 2017) and to find solution for the problems faced (Mardikanto 2009). For member, the meeting should be used as an important event to obtain information as much as possible (Prawiranegara *et al* 2015) and to gain business opportunity (Lepoetre *et al* 2013). Moreover, any members and boards who have problem or complaint are also able to convey it to look for shared solution (Mardikanto 2009).

Furthermore, the average capacity achievement percentage of combined farmer groups as farmer economic institution was 81.25 percent. By taking the achievement percentage into account, the capacity of combined farmer groups should be appreciated considering the capacity building of combined farmer groups into economic institution was performed in a relatively short period of time, for approximately two years. However, increase in the capacity is required to be continuously done as recommended by Horton (2003) that the development of institutional capacity should continue be conducted to increase organizational capability and its parts in

order to be an effective, efficient, and sustainable organization. This keyword of sustainability will determine whether combined farmer groups can continue to be farmer economic institution which is both steady and sustainable. Therefore, recommendation of Adewole (2015), Sumardjo (2016), Anwarudin and Maryani (2017) described that institution should always maintain and increase its ability to be competitive, to filter and to cooperate so that institution continues to develop, both economically, ecologically, or socially.

**Table 2** The Role of Combined Farmer Groups as Farmer Economic Institution

No.	Indicators	Percentage of Role Implementation (%)
1.	Combined farmer groups fulfill the need of farmer production facility	82.00
2.	Combined farmer groups fulfill the need of farmer production infrastructure	79.50
3.	Combined farmer groups facilitate the production of farmer commodity	79.00
4.	Combined farmer groups facilitate marketing of agricultural products	78.25
5.	Combined farmer groups facilitate increase in agricultural product quantity	78.25
6.	Combined farmer groups facilitate increase in agricultural product quality	81.25
7.	Combined farmer groups facilitate agricultural product continuity	80.75
8.	Combined farmer groups facilitate price stability of agricultural product	80.25
9.	Combined farmer groups facilitate processing business of agricultural product	86.00
10.	Combined farmer groups establish cooperation on agricultural product marketing	81.00
11.	Combined farmer groups establish financing partnership in agriculture	79.75
12.	Combined farmer groups facilitate the application of agricultural product technology	79.50
13.	Combined farmer groups perform joint activity in the processing of agricultural product	81.25
14.	Combined farmer groups perform joint activity in the marketing of agricultural product	79.75
15.	Combined farmer groups perform joint activity in Micro Finance Business Unit	82.00
	Average	80.50

Based on the descriptive analysis as presented in Table 2, it is said that the lowest percentage of the implementation of the role of combined farmer groups as farmer economic institution was obtained by indicator 4 and 5 with a value of 78.25 percent. The fourth and fifth indicators are regarding facilitation for product marketing and facilitation for product quantity increase. Low product marketing facilitation was confirmed by the board to be caused by constraint of the difficulty to find market. This market limitation also hindered the effort to increase production quantity. This condition is similar to the result reported by Tracey and Jarvis (2007) and Massetti (2008) that entrepreneurs often experience market barrier. Most entrepreneurs expect for stable market condition (Bruton *et al* 2008). Therefore, the solution is to improve entrepreneurial spirit and the ability to establish cooperation between all of the member and the board. Entrepreneurial spirit and ability to cooperate have been proven to be the solution for the barrier as mentioned in research of Smallbone *et al* (2013) and Lepoetre *et al* (2013).

Table 2 shows that the highest percentage of the implementation of the role of combined farmer groups as farmer economic institution was obtained by indicator 9, namely about facilitation of agricultural product processing. Primary product in the form of product processing has already obtained positive reaction from the member with high perception. The existence of perishable agricultural product becomes a trigger to find the best solution, namely product processing. Some farmers said that agricultural product processing is an interesting business since it does not only provide solution for perishable agricultural product, but also generates higher profit compared to agricultural products which are directly sold to the market.

The average percentage of the implementation of the role of combined farmer groups as farmer economic institution was 80.50 percent. The role of farmer institution should continuously be strengthened to benefit farmers as mentioned by Galawat and Yabe (2012) that farmers who join an association (institution) will be more efficient, effective, and less to experience loss compared with farmers who do not join. In institution, members may exchange information, both about input supply, cultivation, post harvest, processing, and market.

**Table 3** Performance of Combined Farmer Group as Farmer Economic Institution

No.	Indicators	Achievement of Performance (%)
1.	Institution has a legal entity status	80.00
2.	Clarity of institutional membership	77.75
3.	Availability of organizational structure of institution	77.50
4.	Clarity of institutional duty and function	81.00
5.	Clarity of the rights and obligations of the board	79.75
6.	Clarity of the rights and obligations of member	81.25
7.	Availability of office supplies	78.25
8.	Activity statement	79.50
9.	Implementation of the board meeting	80.00
10.	Implementation of member meeting	80.00
11.	Availability of institutional work plan	78.25
12.	Availability of institutional business plan	77.25
13.	Availability of monitoring plan for institutional activity	79.00
14.	Implementation of business activity in accordance to planning	81.25
15.	Business activity achieves the target of business income	84.50
16.	Institutional business activity produces many products	79.50
17.	Involvement of members in growing institutional business capital	80.75
18.	Institution obtains capital from other source beside the member	78.50
19.	For the last two years, there has been increase in institutional asset	81.00
20.	Financial record of institution	77.25
21.	Clarity of financial reporting of institution	82.25
22.	Institution pays taxes	76.50
23.	Each institutional business product has Standard Operating Procedure (SOP)	80.75
24.	Institution builds network with other institutions	79.00
25.	Institution establishes partnership with other business actors	81.25
26.	Many institutional activities are in cooperation	77.00
27.	Institution offers service on agribusiness information or consultation	80.00
28.	Institution facilitates apprenticeship/training	80.00
29.	The existence of performance assessment for each institutional personnel	80.75
30.	Institution has absorbed employment from the society	81.50
31.	For the last two years, institution has developed	76.00
	Average	79.50

Based on the descriptive analysis as presented in Table 3, the lowest percentage of achievement was found in the indicator 31, namely 76 percent. This indicator was concerned with the development of institution for the last two years. Institutional development in this study was related to the extent of the combined farmer groups in developing their business as farmer economic institution. Based on the result of depth interview with informant, confirmation obtained was regarding the target of combined farmer groups in agribusiness that was relatively high and will be achieved in 5 (five) years. During the study, the age of farmer economic institutional growth and development was only 2 (two) years. Therefore, many targets of business development during the period of time were not yet fulfilled. The solution offered regarding this condition is that the combined farmer groups as farmer economic institution should divide the targets into medium-term and short term target. The target of 5 (five) years can be set as target of medium term which further will be explained more detail as annual short-term target. Hence, there will be target of priority to be pursued in each year. This solution is in accordance with the recommendation of Feola (2017) and Wang *et al* (2017).

Moreover, the highest percentage of achievement was obtained by indicator 15 concerning the achievement of business target. Perception of farmer showed that farmers were satisfied with the achievement of their business target so far. Despite the business development obtained low perception, the perception on business target was found to be relatively high. Confirmation on this situation was shown by several farmers who stated the business their run was still in the stage of opening a business, concerning the development for the last two years. However, this new business has fulfilled some of the business target. The business performed by farmers were facilitated by various farmer economic institutions. The businesses run were also varied in terms of time considering the age of farmer economic institution which was still relatively short.

The average percentage of the achievement of the performance of combined farmer groups as farmer economic institution was 79.5 percent. Definitely, the performance of this economic institution was still relatively far from maximal achievement. Regarding this finding, effort to increase the performance of economic institution should be continued. One of the important points of economic institutional performance was shown by the productivity of the member which were also farmers. In the future, it is expected that more farmers will join farmer economic institution because as reported by Suwandari *et al.* (2005), farmers in group were found to have higher productivity compared with farmers who were not in group. Nuryanti and Swastika (2011) added that the distribution and implementation of technology were socialized through the activity of farmer institution. Farmer institution which includes farmer economic institution is a media for cooperation thus its existence is necessary.

Field finding showed that the performance of farmer institution provided benefit in the form of facilitation in accessing credit, obtaining seed and fertilizer, and transaction cost as well as market access exactly as mentioned by Hellin *et al* (2007). Based on the confirmation with farmers, farmer economic institution was able to help its member in increasing the distribution of information and income of small-scale farmers.

Support for this condition was reported by Bachke (2009) that farmer economic institution in Mozambique was able to create huge impact on agriculture, namely the increasing agricultural income for approximately 50 percent.

#### **Factors Determine the Performance of Farmer Economic Institution**

Based on the result of Spearman's correlation analysis, the correlation between the capacity and role and the performance of economic institution is presented in Table 4.

**Table 4** Correlation between the Determinant Factors and Performance of Economic Institution

No.	Variable	Variable	Correlation Value	Significancy	Description
1.	Age	Performance	-0.460	0.033	Significant
2.	Education level	Performance	0.430	0.021	Significant
3.	Non-formal education	Performance	0.670	0.009	Significant
4.	Length of farming business	Performance	0.380	0.041	Significant
5.	Land area	Performance	0.415	0.037	Significant
6.	Social status	Performance	0.556	0.004	Significant
7.	Economic status	Performance	-0.230	0.145	Not Significant
8.	Capacity	Performance	0.899	0.000	Significant
9.	Role	Performance	0.917	0.000	Significant

Result of correlation analysis listed in Table 4 shows that the variable of individual characteristics, those were age, education level, non-formal education, length of farming business, land area and social status was found to have correlation with the performance of combined farmer groups as farmer economic institution. Other variable, namely economic status did not correlate with the performance of combined farmer groups as economic institution. The correlation was both positive and negative. In negative correlation, the age of farmer was found to be negatively correlated with the performance of combined farmer groups as farmer economic institution. Negative correlation indicates that the younger the age of farmer, the higher the performance of farmer economic institution, *vice versa*. To explain this condition, Mardikanto (2009) stated that older people tend to have decreasing learning ability. Therefore, negative correlation between age and the performance of farmer economic institution is accepted considering the development of combined farmer groups into farmer economic institution requires learning process. Farmer at younger age tends to be more rational. Hauser *et al* (2016) mentioned that rational farmers always want to change their future, by searching and selecting opportunities to be done.

Second, positive correlation which was shown by the correlation between education level, non-formal education, length of farming business, land area and social status and the performance. Positive correlation reflects a correlation in the same direction or proportional correlation between variables. The higher the level of education, non-formal education, length of farming business, land area and social status of farmer, the higher the performance of farmer institution. The value of correlation coefficient between those variables was varied where higher value means stronger relationship. Result of this study was similar to the study of Agboola *et al* (2015) and Tewodros (2015) that significant correlation between social

characteristic and performance of farmer institution existed. Related to education, both formal and non-formal, Minh *et al* (2014) stated that the essence of education is to improve the ability of a person to maintain and improve his quality. Hence, more knowledge and skill obtained through education should result in goodness in all of the activity.

Based on Table 4, it is said that there was significant correlation between variable of capacity and the role of farmer economic institutional performance. The correlation between the two variables was strong as proven by high value of correlation which was close to one. According to the positive value of correlation, linear correlation between variables of capacity, role, and performance of farmer economic institution was formed. Higher capacity of institution means higher role and performance of the institution. Similarly, the higher the role, the higher the capacity and performance. Result of this study supported the recommendation of Horton (2003) who stated: if an institution has already implemented institutional development plan, it is necessary for the institution to perform re-assessment to observe the extent of institutional development and evaluation on the plan or strategy of development that has been performed, as well as to determine the development priority for the next period of time. Result of this study also supported the research of Douthwaite *et al* (2006), Hellin *et al* (2007), Ofuoku and Isife (2009), Chesoli (2013) and Schmidt *et al* (2015).

#### **Strategy to Increase the Performance of Farmer Economic Institution**

Combined farmer groups are consisted of famer groups who join to achieve the common goal. Combined farmer groups in Sukabumi Regency have been existed for a relatively long time. In the development, transformation was done so that combined farmer groups have stronger role in improving farmer welfare. This effort has been done since 2015 through establishment and development of farmer economic institution. After almost two years of implementation, performance of combined farmer groups as farmer economic institution started to show a result. However, the performance was not yet optimal. Therefore, based on several variables which were analyzed quantitatively and supported by qualitative data, strategy to increase the performance of farmer economic institution were formulated and are presented below.

First, considering farmer characteristic as member. Strategy to increase the performance of farmer economic institution is as follows: if it is seen from farmer characteristic, it can be done by optimizing the involvement of young farmers, farmers with relatively higher level of education, increasing the number of extension activity, training, and apprenticeship. The strategy is presented based on statistic analysis, both descriptive and inferential as well as qualitative data to support. Synthesis of references (Minh *et al* 2014, Agboola *et al* 2015, and Tewodros 2015) and field finding showed that farmers with relatively young age tend to be more rational and have strong desire to change for a better and profitable business. Similar result was found in variable of education level, namely the higher the level of education, the higher the ability of logic and ability to communicate. Similarly, farmers obtained non-formal/informal education such as extension, training, and apprenticeship have

a tendency to increase or improve their agribusiness knowledge, skill, and experience.

Second, increasing the capacity of the board and the member of combined farmer groups as farmer economic institution. Increase in the capacity of the board can be done in fields like leadership, administration, planning, management, evaluation, and entrepreneurship. Moreover, increasing capacity of the member can be applied in agribusiness sector, from the upstream (on-farm) to downstream (off-farm). Increase in capacity on the board and member can be done through extension (Yuliani *et al* 2012, Riana *et al* 2015, Sumardjo and Firmansyah 2015, Anwarudin and Haryanto 2018), training (Ledwith and Reilly 2014) and apprenticeship (Hasansulama 2005, Inwood and Sharp 2012). Furthermore, the second solution is that socialization should be continuously performed by the board (Joose and Grubbstrom 2017).

Third, providing intensive assistance to optimize the role of combined farmer groups as farmer economic institution. The assistance can be done by the governmental extension workers, non-governmental extension workers and private extension worker. So far, the assistance was done by governmental extension workers who still have limitations. Result of field observation showed that non-governmental extension workers consisted of advanced farmers were not yet been optimized despite the fact that they have higher closeness to other farmers. Businesses performed by advanced farmers which were proven to be successful may motivate other farmers to follow their success. Research of Anwarudin and Haryanto (2018) mentioned that non-governmental extension workers which consisted of advanced farmer were proven to be the model and motivate other farmers to develop their business.

## CONCLUSION

Based on the result of research, it is concluded that Achievement for institutional capacity, institutional role, and performance of farmer economic institution was found to be not yet optimal with percentage of 81.25%, 80.5% and 79.5%, respectively. Performance of farmer economic institution was determined by farmers' age, formal education level, non-formal education, length of business, land area, social status, the capacity and role of economic institution. Increase in the performance of farmer economic institution can be done by (1) optimizing the involvement of young farmers, farmers with relatively higher level education, increasing the number of extension activity, training, and apprenticeship; (2) increasing the capacity of the board as well as the member and (3) performing intensive assistance to optimize the role of combined farmer groups as farmer economic institution.

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