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Farmers' motives for diversifying their farm business – The influence of family

Helena Hansson [a,*], Richard Ferguson [a], Christer Olofsson [a], Leena Rantamäki-Lahtinen [b]

[a] Department of Economics, Swedish University of Agricultural Sciences, P.O. Box 7013, SE-75007 Uppsala, Sweden
[b] MTT Agrifood Research Finland, Finland

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A B S T R A C T

This study examined the motives underlying decisions by farmers to start new ventures outside conventional agriculture and assessed the importance of the farm family situation in formulating these motives. The study was based on quantitative data obtained from 309 Swedish farmers who self-reported that they ran other ventures in addition to their agricultural production enterprises. Factor analysis revealed a structure with two underlying motives for starting a venture outside conventional agriculture, namely 'business development for reasons to reduce risk and to use idle resources' and 'business development for social and lifestyle reasons'. The factor scores obtained were related to measures of involvement of the farmer's spouse in planning and managing the new venture and the importance of family considerations at a more general level. The results showed that the motives for starting new ventures were dependent on the situation of the farm family, but that the two groups of indicators identified influenced these motives in opposite ways. These findings are of obvious interest for rural development policy makers.

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1. Introduction

Diversification of the rural economy is one of the most highly prioritised themes in rural development policy in European Union member states (Council Regulation (EC) No. 1698/2005). Diversification is considered essential to improve rural economic growth, employment and migration. One recommended strategy for diversifying the rural economy is to help farmers find new or complementary commercial ways of using existing resources (such as farm buildings, labour, equipment, pasture and forests) that were previously employed in conventional agriculture. For the farm businesses, this would imply diversification to activities outside mainstream agriculture. The scientific literature reports great interest in farm diversification, its occurrence and determinants (e.g. Ilbery, 1991; McNally, 2001; Chaplin et al., 2004; Gorton et al., 2008; Barbieri and Mahoney, 2009; Maye et al., 2009; Brandth and Haugen, 2011; Grande, 2011; Vik and McElwee, 2011). Many studies also focus on pluriactivity by farmers, covering not only the development within the farm business but also incorporating other income-generating strategies such as off-farm employment or multiple business holdings (e.g. Alsos et al., 2003; Serra et al., 2004; McNamara and Weiss, 2005; Lagerkvist et al., 2007).

In order to formulate successful policy, policy makers have to take the behaviour of the target population into close consideration. Pietola and Lansink (2001) emphasised that successful agricultural policy should build on in-depth understanding of the behaviour of farmers. Indeed, several authors have recently pointed out the need to clearly understand the motivation for entrepreneurs in order to understand their behaviour (e.g. Delmar 1996; Baum et al., 2001; Shane et al., 2003; Schjoedt and Shaver, 2007; Kirkwood, 2009) and the start-up of new ventures in agricultural businesses is an example of entrepreneurial activity (Alsos et al., 2003; McElwee, 2008).

There has long been an interest in the literature in relating readily observable farm and farmer characteristics, such as existing agricultural enterprises, farm size, farmer's age and gender, etc. to the occurrence of farm diversification and pluriactivity (e.g. McNally, 2001; Chaplin et al., 2004; Serra et al., 2004; McNamara and Weiss, 2005; Lagerkvist et al., 2007; Maye et al., 2009). However, there is now a growing interest in also understanding the motives underlying decisions by rural actors, such as farmers, to diversify their businesses (Polovitz Nickerson et al., 2001; Alsos et al., 2003; McGehee and Kim, 2004; McGehee et al., 2007; Barbieri and Mahoney, 2009; Northcote and Alonso, 2011; Vik and McElwee, 2011). For instance, Barbieri and Mahoney (2009) found that a desire to reduce risk and uncertainty was the most important goal underlying decisions by farmers and ranchers in Texas to start diversified ventures, followed by a desire to grow and

* Corresponding author. Tel.: +46 18 67 17 14; fax: +46 18 67 35 02.
E-mail address: Helena.Hansson@slu.se (H. Hansson).

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provide market services, enhance financial conditions, fulfil personal aspirations and pursuits, enhance revenue and family considerations. Similarly, Northcote and Alonso (2011) found that risk considerations, market opportunities, access to resources and lifestyle factors influenced diversification decisions among olive-growing farmers in Western Australia. Vik and McElwee (2011) found social motives to be more important than additional income in explaining diversification. Alsos et al. (2003) suggested there are three types of diversifying farmers; the pluriactive farmer, the resource-exploiting entrepreneur and the portfolio entrepreneur. The pluriactive farmer is said to start the new business activities "in order to be able to sustain farming or expand the farm to be the workplace for more family members, which in both cases demands more income-generating activities" (Alsos et al., 2003, p. 439); the resource-exploiting entrepreneur is motivated by the goal of utilising existing resources; and the portfolio entrepreneur is driven by the goal of exploiting a business opportunity.

The consensus from this literature is that farmers' motives for diversifying their businesses are complex and include several considerations other than economic aspects. Hence, rural policy that is built on too simplistic a view of the goals underlying farmers' decision making, e.g. that farmers only undertake activities that maximise their economic return at a given level of risk, is unlikely to be successful in influencing the behaviour of farmers in the intended way. Furthermore, the motives underlying farmers' decision making are likely to be context-dependent, i.e. embedded in, and dependent on, the context in which the farm business is situated. Given the ownership structure of farms in most Western countries, where farms are run as family businesses, one obvious and important consideration is the family situation of the family owning the farm. Literature on family business management has recently called for a deeper understanding of how the family influences the strategic management of family-owned firms (Sharma et al., 1997; Chua et al., 1999; Chrisman et al., 2003; Chua et al., 2003; Westhead and Howorth, 2006). A presupposition in the present study is that the family situation will influence the motives underlying farmers' decisions to diversify their farm businesses and that this needs to be explicitly studied in order to understand how the farm sector can develop in the future. Indeed, Peltola (2000, p. 248) points out that pluriactivity by farmers may considerably balance out variations in farm income and provide a more stable livelihood. From this perspective, on-farm diversification may be viewed as a survival or adaptation strategy for the farm family and the motives for this behaviour should be dependent on the farm family. However, this context-dependency of motives behind diversifying farm businesses outside conventional agriculture has not been researched in previous literature.

Accordingly, this study focused on the motives underlying decisions by farmers to start new or complementary ventures outside conventional agriculture, with the aim of identifying how these motives are dependent on the farm family situation. The aim was to provide information on how family involvement in the creation (planning and management) of the new venture and how family considerations in general affect the motives underlying farmers' decisions to diversify outside conventional agriculture. The study was based on empirical evidence relating to a sample of 309 farms in Sweden that had reported starting a new or complementary venture outside conventional agriculture, or were planning to do so.

2. Theoretical framework

2.1. How to define a diversified farm business

From a theoretical, strategic management point of view, diversification of businesses can be analysed in what is called the Ansoff product market growth matrix (originally due to Ansoff, 1957), where a firm can adopt three diversification strategies: i) Developing new products for existing markets; ii) bringing existing products into new markets; and iii) serving new markets with new products (e.g. Johnson et al., 2011). According to this system, a farm business would be diversified if following any one or more of these three strategies. However, in most of the farm business literature, the concept of a diversified farm business is less straight-forward.

While there is no generally agreed standard definition of what is meant by a diversified farm business, a review of definitions used in the relevant literature (e.g. Ilbery, 1991; McNally, 2001; Turner et al., 2003; Barbieri and Mahoney, 2009) suggests that to be considered diversified, a farm would have to use its farm resources for activities other than production of conventional crops and livestock to generate income, or would have to add value to raw materials originating from primary production, e.g. by running a small-scale processing plant. Hence, the definition of a diversified farm business is somewhat different to that used in strategic management, in that such farms would have to use their farm resources to generate income outside conventional farm production, e.g. a farm producing and selling milk and grain would not be considered diversified. Another difference is that what is considered to be vertical integration (further processing of a primary product or on-farm marketing and retailing) in the strategic management literature (e.g. Johnson et al., 2011) is considered to be diversification in the farm diversification literature (e.g. McNally, 2001; Turner et al., 2003). On the other hand, vertical integration as normally undertaken on farms, such as on-farm processing or marketing and retailing, often involves adding value to the products and satisfying the needs of a particular type of customer (often customers valuing locally produced food, traceability and/or organic production), and can therefore be considered diversification in the strategic management sense. Furthermore, because the definition of a diversified farm business is also made in relation to what is considered conventional farm production, the definition is likely to change over time, as noted by Turner et al. (2003). Those authors provided the example of organic farming, which was initially considered farm diversification but is now part of mainstream farming. While this imprecise definition of a diversified farm business may be problematic from a theoretical point of view, it is convenient from a practical point of view since it is adaptable to the changing terms and conditions under which farming is conducted.

This study takes its starting point in the farm business, with the farmer as the manager, and defines diversification as involvement in ventures outside conventional agriculture in which farm resources are used, or ventures based on further on-farm processing and/or marketing and retailing of products. This definition of farm diversification closely resembles that used in previous studies (e.g. McNally, 2001; Turner et al., 2003; Barbieri and Mahoney, 2009; Vik and McElwee, 2011), and is based on the distinction that farm diversification is viewed as activities taking place outside conventional agriculture – which in turn is viewed as one enterprise – but where farm resources are used. Hence, a farm that is engaged in a diverse set of agricultural productions, such as livestock, forestry and crops, is not considered to be diversified with the definition used here. Furthermore, a farm engaged in on-farm processing or marketing and retailing aiming at meeting the needs of a particular type of customers is considered diversified with this definition even though its production may be highly specialised.

It should be noted that this definition of a diversified farm business concerns the activities undertaken at the farm, using the farm's resources. A parallel concept, which should not be confused with diversification, is pluriactivity, which focuses on the activities of the farmer and is based on the 'diversified' sources of income for the farm household (as opposed to the farm business). Hence, while

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