



## Searching for the entrepreneurs among new entrants in European Agriculture: the role of human and social capital



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### 1. Introduction

During the last two decades, the agricultural sector within the European Union (EU) has faced different economic changes, such as liberalisation of agricultural trade and successive Common Agricultural Policy (CAP) reforms, which have led to a more market oriented and less protected agriculture (Serrano and Pinilla, 2014; Giannakis and Bruggeman, 2015). The EU agricultural policy developments have moved from direct production supports to decoupling farm payments from production. The ‘Fischler Reform’ of 2003 and the ‘Health Check’ of 2008 have been main triggers for this market-oriented agriculture, whereas the CAP 2013 reform has continued this orientation (Blanco et al., 2011; Daugbjerg and Swinbank, 2011; Matthews et al., 2017). Further, agricultural markets have experienced an increasing volatility of prices and increasing cost of inputs, which have resulted in a reduction of farms’ profitability and, therefore, a reduction of economic attractiveness of agricultural activity to new entrants into the sector (Directorate-General for Internal Policies (DGIP, 2012; Zagata and Sutherland, 2015).

In light of that and the need of generational renewal of the sector, new entrants into agriculture have benefited from a support system designed to help young farmers set up their economic activity. Since 2000, this business start-up aid has been provided under the so-called Pillar 2 measure for the setting-up of young farmers and in the 2014–2020 period an additional direct payment scheme for young farmers has been introduced under the Pillar I (Zagata et al., 2017). Nonetheless, the number of new entrants in the EU seems to be decreasing and – as a consequence – these public policy measures are under discussion (EIP-AGRI, 2016; ECA, 2017; Matthews, 2018).<sup>1</sup>

However, that does not mean that entrepreneurial activity is totally absent in agriculture. Industrial changes (e.g. technological progress, demand changes and regulatory developments) as well as socio-political change (e.g. globalization) have also created new business opportunities in agriculture. There is an interesting group of so-called ‘new entrants’ in agriculture – often with very different backgrounds –

who engage in different business practices and networks than more traditional farmers (Lans et al., 2017). The term ‘new entrants into farming’ addresses a wide range of entry points to agriculture, ranging from ex-novo new entrants (complete newcomers to the sector), to individuals or families returning to a family-held farm later in life (Sutherland, 2015). Examples include multifunctional farms developed from outside the agricultural sector (Hassink et al., 2016), start-ups of completely new, innovative farming products as well as the initiation of urban farming practices (Dieleman, 2017). So next to a dominance of family farms, agriculture has also become a sector with entrepreneurial behaviour of start-ups (Joose and Grubbström, 2017).

Interestingly, the number of individuals that decide to start agricultural new ventures varies significantly across the EU (Zagata et al., 2017). The Global Entrepreneurship Monitor’s (GEM) indicator of Total Entrepreneurial Activity (TEA) provides a useful source of information to visualise and to start explaining these differences<sup>2</sup>. Fig. 1 shows how countries with high rates of agricultural start-ups tend to be more efficiency-driven economies (e.g. Latvia, Lithuania, Croatia and Estonia) characterized by a high share of the agricultural sector in the GDP (Korosteleva, 2014). In addition, it shows how the farm structure of the country may affect the entry dynamics. European countries where small-scale holdings are more prevalent, such as Italy and Greece, present low rates of agricultural entries (Zagata and Sutherland, 2015).

However, the figure also shows that countries with large agricultural sectors and high numbers of small-scale farms (e.g. Portugal and Romania) have high rates of new agricultural entrants. As such, the decision to start a new business in agriculture is a complex process that not only depends on the external context such as the country’s demographic, macroeconomic and institutional environments, but also on the individuals behind the new agricultural venture (Shane, 2003a; Stuetzer et al., 2014; Pindado and Sánchez, 2017; Matthews, 2018).

Consequently, over the last decade a growing body of research has explored the mechanisms by which farmers engage in entrepreneurial activities (McElwee, 2006; Vesala and Vesala, 2010; Grande, 2011; Fitz-Koch et al., 2017; Methorst et al., 2017; Morris et al., 2017). These

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<sup>1</sup> It is impossible to accurately assess the number of new entrants in Europe due to EUROSTAT does not report entry rates for agriculture (EIP-AGRI, 2016).

<sup>2</sup> Total Entrepreneurial Activity (TEA) is the percentage of population between 18–64 years old that is involved in starting a new venture or is the owner/manager of a business that is less than 42 months old (Reynolds et al., 2005).



**Fig. 1.** Country average entrepreneurial activity rates during the period 2004–2014. Source: Elaborated by authors based on data from the GEM Adult Population Surveys (APS) 2004–2014 (929,847 observations).

studies have stressed opportunity identification of farmers as a core process of agricultural entrepreneurship (Seuneke et al., 2013; Lans et al., 2017). Whether entrepreneurial opportunities are discovered or created, scholars do agree that specific knowledge, skills and competence, as well social capital seem to play a crucial role in the opportunity production process (Espancia, 2014; Vogel, 2017). Whilst there are an increasing number of studies addressing established farmers' human and social capital in relation to entrepreneurship, and particularly of entrepreneurial competencies and networks, our understanding of these intangible assets in the context of new entrants in agriculture is very limited. (Seuneke et al., 2013; Pindado and Sánchez, 2017).

This lack of understanding is striking if we consider that scholars have highlighted how new entrants into agriculture may create more value added to the sector and to rural areas than their established counterparts (Hulsink, 2005; Agarwal et al., 2009; Vik and McElwee, 2011; Zagata and Sutherland, 2015). A more advanced understanding of entrepreneurially inclined new entrants could contribute not only to the competitiveness and survival of the agricultural sector but also to the vitality of countryside (Alsos et al., 2011; EIP-AGRI, 2016; Hassink et al., 2016).

Therefore, the central research questions in this work are:

- (1) What are the personal attributes of European new entrant farmers that identify new business opportunities in their business environment?
- (2) What is the influence of specific human capital and social capital on perceived opportunity identification of European new entrant farmers in their business environment?

To address these questions, this research draws upon two main areas

of the (agricultural) entrepreneurship literature: the role that entrepreneurs' human capital plays on entrepreneurs' capacity to identify business opportunities (Shane, 2000; Alsos et al., 2003; Shepherd and DeTienne, 2005; Ucbasaran et al., 2008; Lans et al., 2014), and the role of social capital on access to information, which increases entrepreneurs' opportunity identification (Singh et al., 1999; Davidsson and Honig, 2003; Shane, 2003b; Baron, 2006; McElwee and Bosworth, 2010; Lans et al., 2016). Since the literature states that opportunity identification is affected by the context in which entrepreneurs operates (Kwon and Arenius, 2010; Stuetzer et al., 2014; Methorst et al., 2017), the theoretical framework proposed for this study considers individual factors as well as contextual features. Thus, the data for this study were a sample of 25 European countries and 1,877 new entrants into agriculture for the years 2004–2014 from the Global Entrepreneurship Monitor (GEM).

As already stated, the contribution of this paper is both theoretical and practical. First, our findings contribute to the agricultural entrepreneurship literature by showing the determinants of opportunity identification among agri-entrepreneurs, an area which has been very little studied and even less so in an international context like the EU (Methorst et al., 2017). Furthermore, we make a distinction between social and human capital and therefore extend the understanding of the role both play in entrepreneurial processes within this particular sector (Marvel et al., 2014; Moyes et al., 2015; Dias and Franco, 2018). Second, our results contribute to the ongoing debate –driven by the premise that new market challenges in agriculture require new knowledge and competencies – on the mechanisms how farmers' formal and informal learning enables them to pursue market needs (Šūmane et al., 2017). While several studies have investigated the impact of diverse sources of knowledge and social interactions on agri-

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