



**IJMRBS**

ISSN 2319-345X  
Vol. 4, No. 2, April 2015

# International Journal of Management Research and Business Strategy

[www.ijmrbs.com](http://www.ijmrbs.com)



**MEGHANA PUBLICATIONS**

[www.meghanapublications.com](http://www.meghanapublications.com)

# RECONSTRUCTION MODEL TO INCREASE REVENUE OF BREEDER PARTNER IN THE PARTNERSHIP SYSTEM OF BROILERS AGRIBUSINESS IN SOUTH SULAWESI, INDONESIA

Muh. Ridwan<sup>1\*</sup>, Djabir Hamzah<sup>2</sup>, Indrianty Sudirman<sup>2</sup> and Nurdjannah Hamid<sup>2</sup>

\*Corresponding Author: **Muh. Ridwan** ✉ [muhridwanrizal@yahoo.com](mailto:muhridwanrizal@yahoo.com)

Research is located in South Sulawesi at districts which are the working area of broiler agribusiness partnership system, using a qualitative research approach based on expert judgment. This study aimed to identify alternative models of partnership that can increase the income of breeder partners in South Sulawesi. The findings indicate that the alternative model of partnership that can increase revenue of broiler farms in South Sulawesi include: (1) Partnership Model based on Broilers agribusiness partnership cooperative with mastery of the upstream sector of broilers agribusiness; (2) Partnership Model based on partnership Cooperative of broilers. Agribusiness collaboration with poultry production facilities industrial enterprises, e.g., DOC, feed and drugs, vaccines and chemicals (OVK); (3). Broiler Breeders Cooperative Model in partnership system developed by the company with DOC and feed industry- based. The selection of the partnership cooperative-based model with some alternative will greatly depend on the conditions of the determinants of successful development partnership model intended.

**Keywords:** Reconstruction, Partnership Model, Broiler, Revenue

## INTRODUCTION

Indonesian livestock industry is growing very rapidly with the increase in people purchasing power and experienced a peak in 1996. This development is less encouraging since the economic crisis around 1997. The economic crisis that hit us a few years ago has devastated the economic structure that has been built over

the years and even destroy some specific sectors including livestock industry sectors, so many farmers experienced bankruptcy because no longer afford the industry due to a surge in raw material prices and an uncertain market, it forces the farmers to take steps to raise short-term recovery slump national economy. As a result the livestock sector can be re-emerged from the downturn.

<sup>1</sup> Department of Social Economics, Faculty of Animal Husbandry, Hasanuddin University, Makassar, South Sulawesi, Indonesia.

<sup>2</sup> Department of Management, Faculty of Economics and Business, Hasanuddin University, Makassar, South Sulawesi, Indonesia.

In the early step of the development of agriculture, the main problem encountered is the difficulty and shortage of production and supply of agricultural commodities. Difficulties and shortages in production also experienced by livestock sub-sector so that priority be directed to the improvement of production and fulfillment. To meet the needs of animal -based products, the government in the short and medium term spur the production increase through the development of the cultivation process. In the span of development of the farm, the farmer folk plays a strategic role and contribution. The role and contribution can be seen both in terms of number of farmers and people involved in aspects of quantity and quality of livestock products produced. In a further development, medium and large farms and private companies are increasingly playing a significant role and contribution. Meanwhile welfare and income people with small-scale farms have not been increase as expected and the portion of their economic participation and opportunity is still relatively limited.

Small farm business must be protected from the threat of competition on the one hand and need to be empowered through the provision of business opportunity on the other hand. In response to this problem, the government issued Presidential Decree No. 99 of 1998 on the field or type of business open for a medium or large businesses with the terms of partnership. One of which is a broiler farm partnership but some problems arose in its development, especially in terms of optimization of the income received by farmers partners. Empowerment conducted by the company-partners in helping to lift people's farm from collapsed due to the economic crisis has not yet given a hope to achieve developed,

economic and independent breeding business, as well as strong investor subordination big business) to the farmer / rancher (small businesses). In many cases the partnership mechanism, in fact, makes small farmers become increasingly dependent, even can no longer be competitive without access to the services provided by contract farming company ( FAO, 2001 in Begum *et al.*, 2011). Some evidence from various countries shows that most contract farming schemes exclude small farmers ( Singh, 2000 in Begum *et al.*, 2005), in general, intensive farms with large capital makes barrier for small farmers to join with contract system because of high transaction costs and scale economy (Begum *et al.*, 2005).

Generally, small farmers in Bangladesh as well as in Indonesia can not take advantage of market opportunities and often have difficulty to access credit, obtain information on market opportunities or new technology, purchase inputs such as DOC, feed, and vaccines and access output markets. When the market is accessible, farmers often experience fluctuations in the price or the price is not fair. The difficulty is an obstacle to the development of commercial poultry sector outside the partnership and represented a 'bottleneck' in the development process (Begum *et al.*, 2005).

Therefore, one of the challenges in the development of farmers from the low position into a higher position in the third world is how to develop them so that they can organize themselves as an effective pressure group. As is the case in western countries, farmers need to achieve the position and able to be on an equal footing, and able to deal with various agencies in an egalitarian structure (Brienkerhoff and Goldsmith, 1993; Sumardjo, 1999) in Sumardjo

(2001). In its implementation, agri-business development program is expected to develop self-reliance of farmers so that there is no a subordinate position in the relationship between parties. Instead, a mutual support and mutual benefit (interdependent) relationship could develop.

The world economy leading to the liberalization of trade, economic globalization and industrialization of livestock have consequences of merging farm product market, the mobility of resources and an increase in the intensity and scope of the competition. In the environment and climate as it, the key to taking advantage of opportunities is an increase in global competitiveness. And to achieve global competitiveness, livestock development approach with the old paradigm needs to be developed and adapted. Livestock-based agribusiness development will be able to survive and thrive when it's done in a systematic and integrative changes in the development paradigm.

According to Prof. Bungaran Saragih, livestock development paradigm which is able to provide a relatively high increase to farmer's income and create the global competitiveness of farm products is a farm-based agribusiness development paradigm that includes four subsystems, namely; upstream agribusiness subsystem, farming agribusiness subsystem, downstream agribusiness subsystem and support services subsystem. Of all these subsystems, the greatest added value is obtained from the upstream and downstream agribusiness, while value-added obtained from livestock farming subsystem is relatively small. Therefore, people who involve in livestock farming agribusiness will always receive a relatively small income, so the economic life also did not change

significantly. While those who master the upstream and downstream subsystem receive a relatively large income and today become middle-upper income groups.

By looking the farm as a subsystem of agribusiness, then the approach of livestock development need to be more integrated, simultaneous, comprehensive and focus. With this kind of approach, livestock development policies should be directed to manage the four subsystems simultaneously and related. Be realized or not, the former livestock development program had made our farm agribusiness structure discontinuous and this structure makes the competitiveness of agribusiness become weak. Discontinues of agribusiness structure must be changed into integrative structure and promote vertically integrated agribusiness farms where all subsystems from upstream to downstream constitute the unity of management decisions. In vertical integration, company controls two or more stages of vertical coordination; in this system management directs all phases. In traditional marketing systems, producers, wholesalers and retailers act independently and each trying to maximize profits separately. In vertically integrated system, marketing actors generally bargain and can not control each other, so - in short- vertical integration requires only one ownership on all production activities from producers to consumers (Seker *et al.*, 2006)

## **FORMULATION OF THE PROBLEM**

How is agribusiness partnership as an alternative model of broiler farms able to increase revenue of broiler chicken breeders in South Sulawesi

## RESEARCH PURPOSES

Develop alternative partnership models that can increase farm income in agribusiness partnership system of broiler chickens in southern Sulawesi

## THE RESEARCH USEFULNESS

The results of this study are expected to be the subject of study to develop a partnership model of broiler-based farm which can accommodate the larger interest of farmers in increasing farmers income and independence, as well as synergies between partners which interdependently, mutually beneficial and mutually reinforcing in the industries.

## RESEARCH METHODS

### Approach and Types of Research

This study used constructivist research paradigm with qualitative research.

### Location and Time Research

This study was located in the province of South Sulawesi. Data retrieval took place in 2014 with a duration of about 6 months.

### Types and Sources of Data

Types of data collected in this study, derived from primary and secondary data. Data obtained from in-depth interviews with a number of informants/ participants and direct observation of the object studied. Secondary data to support the primary data obtained from various documents published sources (books report on the implementation of partnership, research reports, archives) as potential sub-district/village, district numbers, as well as reports from various agencies.

### Data Collection Techniques

#### In-depth Interviews

In-depth interviews conducted with a number of

expert/specialist informants, consisting of farmers, government, academia and private parties ( companies/associations of livestock/ management agency partnership broiler). Determination of experts/informants follow the criteria that they have deep knowledge and experience of broiler farming contract partnership in South Sulawesi, having experience not only associated with one factor of resources, but also for other related sectors. In addition to these criteria, the experts selected for their work on the government and private organizations and involve in the operation as well as academic activities especially livestock.

## OBSERVATION

In this study, researchers will use a method of non-participant observation, where the researcher is not directly involved in the daily activities of the community as an object of observation and act as an independent observer

### Secondary Data Collection

Secondary data used in the form of written data or images that contain data about the breeder, the data plan of partnership activities and the types of activities that have been done, the results of relevant research, as well as archives and other related activities Agribusiness partnerships.

### Research Result

The pattern and structure of socioeconomic institution of small breeders seem not able to increase their income meaningfully compared to medium and large farmers and private companies. The development of partnership models that can increase the income of broiler chicken farm in South Sulawesi can be realized with the reconstruction of management model which has been discontinuous so far, by directing

it into integrated model in the form of vertically integrated chicken agribusiness management. This means that there will be a line of management decisions from upstream to downstream. One alternative is developing farm agribusiness cooperatives. Farm cooperative intended is not the same with KUD (village unit cooperative) which only handle the livestock culture and usually has multi-commodity characteristic in business activities, but cooperative that handles a one big commodity in one product line as its core business and does not handle farming activities which have been addressed by cooperative members. Cooperative business activities are focused on upstream and downstream agribusiness subsystem by developing business units in the form of a single enterprise, or joint venture.

**Scenario Partnership Model Development of Broiler Chicken Farm Agribusiness**

The selection of cooperative-based partnership model with some alternatives will greatly depend on the condition scenario of the factors that influence the successful of partnership model development intended.

Referring to the study (Table 1), priority alternative scenario most likely to occur is

moderate scenario, then the most realistic model to be realized in the development of broiler chickens agribusiness partnership in South Sulawesi is Cooperative-based broiler poultry agribusiness development Partnership Model in which small farmer become a business partner of industrial companies which produce poultry facilities (DOC, Feed and OVK) to obtain value-added upstream (alternative model 2).

With this model, the partnership formed is expected to reflect the principle of a win-win solution and is based on the principle of interdependence, common interest of all the cooperative members will be the basis for decision making in partnership system they developed, thus not allowing exploitation by certain parties to get a greater benefit. Liability for partners coaching and empowerment will be a major concern because the success of each member of the cooperative is going to be a success felt directly by the cooperative both materially and in terms of capacity building of its members. However, in this model was realized that maximum potential of value added in the upstream and downstream sectors could not be achieved; in fact, without the support of policies in favor of the development of this model, it has

**Table 1: Alternative Models Based on Development Determinant Condition Scenarios**

Priority	Factor condition scenario	Alternative model
1	<b>Moderate Scenario</b> (commitment of perpetrators: increasing - business competition: increased - access production facilities: there is the potential for improved - price stability: stable enough - the availability of supporting institutions: increasing)	<b>Alternative 2</b> Broiler poultry agribusiness Cooperative-based Partnership model in cooperation with industrial companies which produce poultry facilities (DOC, Feed and OVK)
2	<b>Optimistic Scenario</b> (commitment of perpetrators; increasing - business competition; increasing - access production facilities; increasing - price stability; increasing - the availability of supporting institutions; increasing)	<b>Alternative 1</b> Broiler poultry agribusiness cooperative-based partnership model with mastery of the upstream sector of broiler chicken agribusiness (DOC and Feed)
3	<b>Pessimistic scenario</b> (commitment perpetrators; increasing - business competition; reduced - access to the means of production; there is potential for increase - price stability; wane - the availability of supporting institutions; needs to be improved).	<b>Alternative 3</b> Broiler Chicken Breeders Cooperative Model

the potential to cause problems, especially if the supply of raw material feed and seed as well as the expected OVK of the feed industry both in terms of quality, quantity and price that they offer is not in favor of the development of the model.

The problems above can be anticipated if the factors condition is likely in the optimistic scenario that support for relevant strategies in partnership model development of Cooperative-based Broiler poultry agribusiness as the main perpetrators of business partnerships with mastery of the upstream sector of broiler chickens agribusiness (DOC and Feed) to obtain maximum value added in upstream sector (alternative models 1). With this model the dependence on the supply of feed and DOC inputs of feed industry have been overcome by the ability of agribusiness cooperatives formed to produce their own feed industry and DOC units, so that they can control their own quality, quantity as well as the price of the raw material, while the means of production of medicines, vaccines and chemicals should remain in cooperation with industry suppliers that are outside the cooperative system. If this condition can be realized, the principles of partnership include mutually beneficial and mutual need will be achieved. The huge obstacle that will be experienced is the unwillingness of industrial corporation that controls the feed and DOC for this partnership to remove any authority owned in broiler partnership development, but all will depend on the goodwill and support from the government to issue regulations on breeders people who had been on environment in which they are aware have been exploited but they are not able to escape from the system.

However, if the condition of the worst cases, in which the factor scenario is in the pessimistic condition, then alternative model is probably the

broiler breeder cooperative development which remain in the partnership system developed by the feed and DOC companies to improve the bargaining power of farmers partners to realize partnerships based on the principle of win - win solution (alternative model 3). Although realized, with this model a great value added in the upstream sector has yet to be achieved and remains controlled by a company which is based on feed and DOC industry. Because of the conditions that are not conducive to an upstream sector development for small breeders, they still remain in culture sector with all its consequences. The main target in this model is how to collect the entire breeders who are members of the current partnership system into a cooperative institution of broiler breeders, so it will be a new strength and a great impetus to the creation of the partnership model which more aligned to the interests of all. Unethical practices such as contracts that were unfavorable to farmers because there is no involvement of farmers in the preparation and the absence of a potential negotiation of contracts (standard contracts) can be minimized. With the cooperative institutional negotiation skills and bargaining power to form better and more ideal partnership model, eventually can be realized.

Conditions are generally developed in partnership by the feed industry today with all the unethical practices was not separated from the huge strategic role held by feed and DOC industries as partner companies. These conditions led to the growing dependence of farmers who make their partners to grow and partner companies increasingly easier to perpetuate the practice of exploitation that had been experienced by farmers. The absence of interdependence and mutual need in the broiler

partnership system developing today allows the odds of occurrence of the condition still big.

In broiler partnership system, no matter how bad breeder performance, the condition do not affect the company, all products will be bought by collectors, not just small or dwarf chicken, even sick chickens (certain types of pain ) is still have buyers. DOC seed, feed and OVK price was already in the contract. Therefore farmers who embrace cultivation sector always experience the large loss that makes them go broke, meanwhile the company still do not suffer losses. Unlike the partnerships that have developed in the agricultural sector in general, agricultural product processing industry company in partnership with farmers to produce the raw materials they need at the right quantity and standardized quality, so that in the system can be seen clearly the principle of interdependence and mutual requires between one another, so that the performance of all the activities will be a critical variable in the system. This is the author's main rationale for shifting the main actor role of farm business partnership from private companies who produce feed and DOC facilities to cooperative-based partnership model of broiler poultry agribusiness so that cooperatives can take on the role of private companies to take on the large value added in the upstream and downstream sectors, with the mechanisms, such benefits can be also enjoyed by the breeder partners through his membership in the cooperative.

## CONCLUSION

Alternative of partnership model development scenario that can increase income of broiler chicken farm in South Sulawesi can be realized with the reconstruction of the management model that has been discontinuous, by direct it into

integrated model in the form of vertically integrated cooperative-based of chicken agribusiness management, with the stages of development scenarios based on factors that influence the development of the model as follows: (1) pursuing the development of alternative models 2 to break the monopoly of production facilities practices that have been developed by a partnership actors, by shifting its role to the Agribusiness Broiler Cooperative, in cooperation with industrial companies of feed production facilities, seeds and OVK to develop the partnership with farmers cooperative members. (2) in the long term after alternative 2 developed succeed, it is necessary to make strategic efforts to get into the scenario 1 by forming cooperative units engaged in upstream and downstream industries, to master the system vertically in an effort to achieve maximum value added in the upstream and downstream and can be enjoyed along with the breeder members of the cooperative, this model also apply the principle of mutual need and interdependence between partners with cooperative farmers as entrepreneurs so the partnerships can be established and will be the basis of the creation of an ideal partnership. (3) However, as an initial step towards creating alternative 2, in the short-term, alternative 3 need to be developed by organizing all breeders who are members of the partnership in one Broiler Breeders Cooperative, to improve their bargaining position towards the creation of partnerships that can improve their well-being as well as a forerunner to the development of poultry broiler Agribusiness Cooperative which became the basis for the development of alternative 2 and 1.

## REFERENCES

1. Bandhu B dan Swine (2009), *The Role Of Contract Farming in Agricultural*



- Development in Globalise World: An Institusioanl Economics Analysis*, Munich Personal RePEc Archive Paper.
2. Begum I A dan Alam M J (2005), "Contract Farming and Small Farmer : A Case Study of the Bangladesh Poultry Sector", *Eroupean Review of Agricultural Econimics*.
  3. Begum I A, Alam M J, Rahman S dan Huylenbroeck V G (2011), *An Assessment of the Contract Farming System In Improving Market Access for Smallholder Poultry Farmers In Bangladesh*.
  4. Bijman J (2008), *Contract farming in developing countries:an overview*. Wageningen University and Research Centre and the Netherlands Ministry of Foreign Affairs (DGIS).
  5. Bourgeois R (2002), *Expert Meeting Methodology For Prospective Analysis*, CIRAD Amis Ecopol.
  6. Brithal P S (2007), *Making Contract Farming Work in Smallholder Agriculture*.
  7. Brithal P S (2008), *Making Contract Farming Work in Smallholder Agriculture*. National Centre for Agricultural Economics and Policy Research, New Delhi 110 012 (India).
  8. Dhillon S S dan Singh (2006), "Contract Farming in Punjab, An Analysis of Problems, Challenges and Opportunities", *Pakistan Economic and Social Review*, Vol. XLIV, No. 1.
  9. D'Silva Jeffrey Lawrence, Abu Samah Bahaman, Mohamed Shaffril, Hayrol Azril (2012), "The March To Sustainability Of Agriculture Through Contract Farming – How Will The Youth Fare?", *OIDA International Journal of Sustainable Development*, Vol. 3, p. 11.
  10. Eaton C and Shepherd A (2001), "Contract farming partnerships for growth", *FAO Agricul-tural Services. Bull.*, p. 145.
  11. Huberman, A Michael dan Miles, Mattew B (2009), *Manajemen Data dan Metode Analisis, Handbook of Qualitative Research*, Yogyakarta: Penerbit Pustaka Pelajar.
  12. Little P D and Watts M J (1994), "Living under contract: contract farming and agrarian transformation in Sub-Saharan Africa. Madison [etc.]", University of Wisconsin Press.
  13. Marimin (2004), *Techniques and Applications. Compound Criteria Decision Making*. Grassindo Press. Jakarta
  14. Marbun B N (1997), *Small Business Management*, PT. Pustaka Binaman Pressindo, Jakarta.
  15. Patrick I Simmons P, Daryanto A, Octaviani R, Yusuf R, Astiti N W S, Pitana G, Mustadjab M M, Hanami N and dan Napitupulu D (2004), *Contract Farming in Indonesia: Smallholders and Agribusiness Working Together*. Australian Centre for International Agricultural Research (ACIAR). Camberra,
  16. Priscilla W. Wainaina, Julius J Okello and Jonathan Nzuma (2012), "Impact of Contract Farming On Smallholder Poultry Farmers' Income In Kenya", *International Association of Agricultural Economists (IAAE) Triennial Conference, Foz do Iguacu, Brazil, 18-24 August, 2012*.
  17. Saaty R W (1987), *The Analitical Hierarchy*

- Process-What it is and How It Is Used. Math Modelling*, Vol. 9, No. 3-5, pp. 161-176.
18. Seker A, Dafran M K dan Emekzis F (2006), *Vertical Coordination: Contract Production Method to Solve Marketing Problems in The Rural Area*, Proceedings First International Conference on Agriculture and Rural Development. Tuposco, Croatia.
  19. Sriboonchitta Songsak and Wiboonpongse Aree (2005), "Analysis of Contract Farming in Thailand", *CMU Journal*, Vol. 4, No. 3, Thailand.
  20. Sugiyono (2009), *Qualitative and Quantitative Research Methods, R & D*, Bandung: Alfabeta Press.
  21. Sumardjo (2001), *Anthology: Partnership In Local Economic Development, Overview Conception Partnership In The Past*. Foundation Partners-City Rural Development and Business Innovation Centre of Indonesia. Jakarta.
  22. Swain Pranaya Kumar, Chandan Kumar C and Prudhvi Raj Kumar (2012), "Corporate Farming vis-a-vis Contract Farming in India: A Critical Perspective", *International Journal of Management and Social Sciences Research (IJMSSR)*, ISSN: 2319-4421, Vol. 1, No. 3, December 2012.
  23. Tomislav V dan Hedge S A (2003), *Risk Sharing in Broiler Contract: A Welfare Comparisons of Payment Mechanism*. American Agricultural Economic Association Annual Meeting, Montreal, Kanada.
  24. Utomo Desianto Budi (2013), Jakstranas dan ARNof Animal Division 2015 – 2019; Contributions of Livestock For Fulfillment Animal Protein in Indonesia. Technical Committee Meeting Papers (Komtek) Food and Agriculture, 17 July 2013.
  25. Warning M, Soo Hoo W dan Key N (2002), *Small Farmer Participation in Contract Farming*, Economic Research Service, US Department of Agriculture Wendy Soo Hoo University of Washington.



**International Journal of Management Research and Business Strategy**

**Hyderabad, INDIA. Ph: +91-09441351700, 09059645577**

**E-mail: editorijmrbs@gmail.com or editor@ijmrbs.com**

**Website: www.ijmrbs.com**

