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# The enterprising farmer: a review of entrepreneurship in agriculture

## Gerard McElwee<sup>1</sup>

### Abstract

The role of the farmer in Europe is changing, as farmers have to develop new skills to be competitive. In a word, they need to become more entrepreneurial. Many of the skills associated with running a successful business are not necessarily skills that the farmer has. The paper presents a number of models, delineating these skills and provides initial definitions of farm entrepreneurship and entrepreneurial skills. Suggests that farmers do not systematically access Business Advice networks and that they are less likely to access opportunities because of limited business networks and feel farming is 'different'. Also proposes that farmers do not systematically engage in continual professional development to update their skills and competences.

### Key words

Entrepreneurial Farmer, Farmers Skills

## Introduction

This paper is part of a longer-term study of the entrepreneurial capacity of farmers in England, Finland, Poland, Italy, Switzerland and Holland and seeks to identify the skills and entrepreneurial strategies which farmers need. The project from which this paper is taken is funded by the EU and will analyse perspectives on entrepreneurship in the agricultural sector through national case studies.

There are different strategies available to farmers in order to survive and be successful in a changing economic environment. They can intensify conventional production, by volume increase, specialise or diversify. For example, the farm enterprise may be broadened, through tourism or other forms of non-agricultural business, or by forward or backwards integration of the value chain by engaging in food processing, direct marketing, or through organic production. All of these options involve growing the business.

Of course a further option available is 'doing nothing'.

This paper suggests that whilst debates about the entrepreneurial capability of farmers are not new they are important. Many of the skills associated with running a successful business are not necessarily skills that the farmer has. The paper presents a number of models, which show what these skills are and provides initial definitions of farm entrepreneurship and entrepreneurial skills.

## Emerging Themes and Issues

The role of the farmer in Europe is changing, as farmers have to develop new skills to be competitive. In a word, they need to become more entrepreneurial.

Warren describes the 'new' functions which farmers have to engage in to be successful. He suggests that

*'there is pressure for farmers to become more all-round entrepreneurs, diversifying away from the production of crops and livestock as raw commodities for transformation further up the supply chain'. (2004.372)*

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The focus on farm diversification from a management and entrepreneurship perspective are relatively recent. It appears that the label 'entrepreneur' is used to describe a multitude of activities.

## Defining farm entrepreneurship

The problem of definition is not confined to entrepreneurship as terms such as 'farm' or 'the farmer' are also problematic. Beedell and Rehman (2000) suggest that to understand the phenomenon of entrepreneurship necessitates understanding farmer's attitudes and motivation in an increasingly hostile business environment.

We subscribe to Gray's definition of entrepreneur, which we think most appropriate and relevant to the farm sector.

*'...individuals who manage a business with the intention of expanding that business and with the leadership and managerial capabilities for achieving their goals' (2002:61)*

What is clear is that whilst many small business owners perceive themselves as entrepreneurs, running a small business and being an entrepreneur is not the same thing. For Corman and Lussier (1996) managing an organization requires different skills and abilities to those of an entrepreneur. For example, successful long-term operation of a business requires managerial skills, while being an entrepreneur requires innovative skills.

## Successful farm entrepreneurship

Schiebel (2002) showed that successful farmers differ from others in terms of three personality traits. They have more:

- o belief in their ability to control events;
- o problem-solving abilities;
- o social initiative (expressed through dominance, liveliness and social skills boldness).

This focus on management and business capability and the extent to which farmers are entrepreneurial actors is contested by [Carter \(1998\)](#), [Carter and Rosa \(1998\)](#), [McNally \(2001\)](#) and [Borsch and Forsman \(2001\)](#) who suggest that the methods used to analyse business entrepreneurs in other sectors can be applied to farmers. For these authors, farmers have traditionally been entrepreneurial, indeed [Carter and Rosa \(1998\)](#), argue that farmers are primarily business owner- managers and that farms can be characterised as businesses. [Carter \(1998\)](#) draws parallels between portfolio entrepreneurship in non-farm (business) sectors and farm pluriactivity suggesting that farmers have multiple business interests and these create employment and rural economic development. [Eikeland and Lie \(1999\)](#) argue that pluriactive farmers are entrepreneurial, but as [Alsos et al \(2003\)](#) acknowledge *'there is still a paucity of knowledge about which factors trigger the start-up of entrepreneurial activities among farmers'*.

For [de Lauwere et al \(2002\)](#) it is possible to distinguish five groups of farmers:

- o Economic entrepreneurs: those who create significant economic change;
- o Socially responsible entrepreneurs: those farmers who recognise that the financial success of the farm needs to balance with a social and environmental role;
- o Traditional growers: those farmers who are able to be successful by focussing on an activity which is 'guaranteed' to be successful;
- o New growers: those farmers who diversify into new, but similar, areas of activity;
- o Doubting entrepreneurs: those farmers who are reluctant to embrace change.

[Kallio and Kola \(1999\)](#) in a study of farmers in Finland attempted to determine what factors gave farmers competitive advantage over other farmers suggest that there are seven characteristics of a successful farm and farmer:

1. Profitable production seemed to be associated with continuous evaluation of production, incomes and expenditures;
2. Constant development of cognitive and professional skills i.e. Continual Professional Development (CPD);
3. They benefit from a positive work ethic;

4. Goal-oriented operation, i.e., the ability to set goals, to reach them and to set new ones;
5. Utilization of recent information that is relevant for the individual farmer's own circumstances and the needs of the farm;
6. Favourable starting points for the enterprise, meaning good condition of machinery, buildings, land and an appropriate balance between pricing of product and investments in production;
7. Cooperation with others in the supply chain.

In the UK, further research is necessary to determine the extent to which farmers in the UK engage in systematic CPD activities. Although we do not provide evidence here, we contend that farmers do not professionally update their skills to the extent which they ought to in a highly competitive fast moving sector.

Riepponen's (1995) study of 50 rural entrepreneurs from the province of Mikkeli in South-East Finland, who were active in food processing, wood processing or in the tourist industry attempted to explore factors that influence the start-up and success of rural enterprises. The data was divided into successful and non-successful entrepreneurs based on researchers' and entrepreneurs' own subjective evaluations and the income derived from the business. The reasons to start a business distinguished the successful entrepreneurs from the non-successful ones: successful ones were motivated by market-related factors (e.g., demand, favourable location, recognition of a market niche) and non-successful ones were motivated by income-related factors (e. g. unemployment, need for compensating income, factors related to health). Thus, the successful ones seemed to benefit from favourable external circumstances related to demand for products, whereas the non-successful ones seemed to have started the business, more or less, because of external pressures.

These attempts to match personality traits to entrepreneurial activity have been subject to criticism and alternative interpretations e. g. (Vesala and Peura, 2002; Peura, *et al.*, 2002) suggest that to understand farmers as entrepreneurs we need to ask them how they perceive themselves i.e do farmers see themselves as being entrepreneurs.

## Entrepreneurial Skills

Hanf and Muller (1997) suggest that in a dynamic environment with fast technical progress, open-minded farm entrepreneurs will recognise more problems than they are able to rationally solve. Therefore, the farm entrepreneur has to recognise problems and work with them until decision-making is possible.

## Opportunity recognition and exploitation in entrepreneurship

Man *et al.*, (2002) categorized entrepreneurial competences in six key areas of related competences. The key clusters are

- o Opportunity recognition skills
- o Relationship building
- o Conceptual thinking and problem solving skills
- o Organizing
- o Strategic competences.

de Lauweres study (2002) of weaknesses in entrepreneurship selected seven critical success factors: management and strategic planning,

- o knowledge of the ecosystem,
- o capable and professional staff,
- o understanding of the value chain perspective,
- o craftsmanship,
- o ability to learn and seek opportunity
- o enterprising personal characteristics.

For de Lauweres, a common starting point for all farmers should be strategic-planning. To this we now turn.

## Management Skills

We use the term management skills because in essence, the subject under investigation is the management skill of the farmer. Thus, management skills are the complete package of skills that a farmer would use in order to develop the farm business.

For de Lauwere, the scope of management and strategic planning is based on a score of fourteen factors: objectives, purpose driven, business planning, sale increases, formulation of policy, information about management, time strategy, measuring of performances, social orientation, growth orientation, certificates, aims for certificates, financially conservative and concerns about the future.

## Diversification

In this section, we consider the importance to farmers of business strategies such as farm diversification, pluriactivity and specialisation.

In an earlier study of farm diversification in the North of England, diversification was defined as: *'a strategically systemic planned movement away from core activities of the business, as a consequence of external pressures, in an effort to remain in and grow the business'* McElwee (2004)

Note that this definition is not an attempt to exclude activities such as on-farm diversification but it does exclude off-farm work or employment. [Meert et al. \(2005\)](#) suggest that any work undertaken which is not farm related is not diversification.

The above arguments suggest that diversification is the normative strategy. However, it may well be the case that for some farmers, it is high specialisation, which may be the most appropriate strategy to ensure business success and survival of the farm business.

For example, according to Rantamäki-Lahtinen (2002) in a survey of all Finnish farms showed that Agriculture and forestry have traditionally been the most important sources of income in Finnish rural areas. Up until the late 1980's, Finnish farms were quite diversified in agriculture (dairy, pigs, poultry etc.). However, increasing specialisation has occurred although most farms are pluriactive in the sense that they have forestry activities as well.

Earlier Finnish studies have shown that specialisation increases as farm size grows (Pyykkönen 1996). The number of farms has decreased steadily and the number of people employed in agriculture has fallen – on the other hand, productivity has increased and the farms are bigger. However, relatively large portions of Finnish farms are pluriactive.

In Finland in most lines of production diversified farms are larger than non-diversified farms, pig farms being the only exception. It appears that farms have diversified in those areas where agricultural growth is restricted, but where markets and customers are for diversified products are near (Rantamäki-Lahtinen 2002). This finding is in line with the conclusions in other countries. In the case of Finland diversification as a strategy is selected more often by younger farmers.

It seems that for some, diversification is indeed a way out of agriculture, but nevertheless many of the pluriactive farms are going to stay diversified in the future (one reason being that their non-agricultural activity is closely linked to agriculture). However, there is also a third, large group: farms that have diversified but are going to re-focus back on agriculture. The reasons for this phenomenon do not appear to be fully understood. Notably, the author argues that neither diversification nor specialisation alone is the best solution for Finnish problems in agriculture; they are complementary to each other – diversified farms tend to use the services and products of the specialised and vice versa (Rantamäki-Lahtinen, *ibid*).

An initial position would be that there might well be similar constraints, pressures and barriers placed on farmers who wish to embrace a specialisation strategy as there are for those who engage in a diversification strategy.

For McElwee (2004) those farmers who participate in diversification activities tend towards reactive, rather than proactive strategies. Furthermore, many of the diversification activities appear to be instigated and managed by the female partners and constitute activities, which have traditionally been associated with the role of the female on the farm, for example running farm accommodation, or a farm shop. There is little in the way of literature which examines entrepreneurial activity by women. One such study is Bock's (2004) examination of Dutch farmwomen's entrepreneurial activity, which stresses that women entrepreneurs follow only small-scale activity and ensure that any new activities supplement their existing work '*so that neither the family nor farm is troubled by their initiatives*'. Bock's paper encourages taking a more positive attitude towards woman farmer entrepreneurs, and argues that understanding this group will help provide them with more support. McElwee argued that the economic significance of these (women's) activities to the continual success of the farm enterprise is no longer a marginal activity. The suggestion is that current farm support policy may develop entrepreneurialism in men rather than women and thus there are gaps in policy, which need to be addressed.

Notwithstanding these barriers, it our contention that farmers do not systematically access Business Advice networks and that they are less likely to access opportunities because of limited social networks and feel farming is 'different' and that there is little to learn from other businesses. Recent research by Lowe and Talbot (2000) reinforce this contention. Their research indicates that farmers primarily access their accountants and bank managers rather than support groups.

The second most popular point of contact is government agencies and Farmers Unions. Support is more likely to be sought from family and friend networks before public sector agencies. Poor and inconsistent advice prevents many farmers from attempting to expand their business. Farmers tend to utilise a very small group of trusted advisors and do not use social networks for financial advice. Moreover, whilst many small-scale farmers may not have the entrepreneurial skill to enable them to diversify, those that are able to employ innovative diversification tactics are constrained to a numbers of small options (either because of restrictive practice through Tenancy agreements or interventionist policies of non governmental organisations. As Falconer (2000) argues an understanding of farmer's decision-making, attitudes and perceptions over government run schemes and their implementation would have value for policy development.

The management of the small farm enterprise is of special interest. Farms of this size may have been owned or managed within the same family for generations. Some of the respondents, in the research conducted by McElwee and Robson (2005) are part of a family tradition, which goes back at least three generations. This ownership/management role has militated against farmers from being entrepreneurial as they have been 'locked into a way of being', and have enjoyed a relatively secure pattern of work. It is hypothesised that historically the motivators for farmers have not been overtly financial: owning a farm and being solely responsible for the health of their own endeavour has been a major determinant of personal success. The primary motivator for many farmers now is one of business and personal survival.

MAFF (2000b) suggested that the smaller units are more vulnerable to the economic changes brought about by the market (CAP) and World Trade Organisation reforms in recent years. Larger farm units, particularly those over 100 hectares, benefit from economies of scale, being better able to spread their fixed costs, and are often better equipped as far as buildings and machinery than small farms. Because of these economies, they are generally less vulnerable to economic pressures and more able to meet the increasingly demanding market specifications for farm products.

The impact of the current low and negative incomes on owner equity in some sectors, and especially for tenant farmers, is potentially critical for substantial numbers of businesses and families and is leading to uncertainty within these businesses and families. It is not surprising therefore, that the opportunities for diversification are a significant issue for farmers. It is not only socio-economic factors which have an impact on diversification opportunities. Geography and topography of the land can determine opportunity. As Maskell *et al.* suggest

*'some geographical environments are endowed with a structure as well as a culture which seem to be well suited for dynamic and economically sound development of knowledge, while other environments can function as a barrier to entrepreneurship and change.'* (1998. p 181).

It is almost certainly the case that 'spaces' contiguous to areas of natural or historic beauty, close to the sea or within day's drive of a large city have many more diversification opportunities than those in different spaces. The geographical location of the farm, the topography and economic infrastructure of the region, the entrepreneurial propensity of small farmers all have a bearing on potential business development.

## Conclusions

To conceive of farmers as a homogeneous group is a mistake and hinders policy development. From our initial investigation it is not possible to determine whether farmers are indeed entrepreneurial. The paper indicates that there is a skills gap in the sector and we show that the skills that farmers need to develop with support from other agencies include: generic business and management skills, particularly marketing, financial and business planning skills. Other skills that need to be developed are those of communication and collaboration. In one sense the quotes illustrated above reinforce their life worlds and interests of the stakeholders interviewed.

There is a clear suggestion that for the industry to be successful farmers need to be supported in their business endeavours. There is no distinction to be made between large and small farmers' ability to react to changes in the environment. Some respondents suggest that large farmers are more business like because they have structural and functional capability.

Preliminary research indicates that farming is not a homogeneous sector and it operates in a complex and multi-faceted environment. Perhaps one of the major questions that will be further posed is which should be the unit of analysis – the farmer or the farm? We suggest that this is important because farmers are not always able to determine the future of their farms. Clearly, the sector is so diverse in terms of geography, topography, location etc that common solutions cannot be provided. A further area for investigation is the concept of 'constrained entrepreneurship'. By this, we suggest that farmers operate in a tightly constrained and regulated environment, which acts as a significant barrier to entrepreneurial activity.

There are a great many skills which are necessary to run the farm business, and to be successful in a competitive market environment. The next stage will focus on these skills. Clearly the extent to which farmers are capable of being able to fully delineate their own skill capacity necessitates further work.

This paper suggests that a major challenge for the agricultural sector is to enable farmers to develop their entrepreneurial skills. It may well point to the fact that if the sector is under as much strain as many would suggest, then farmers of all types will require economic support and greater emphasis on education and training may be necessary.

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