

Farm management extension guide

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ENTREPRENEURSHIP in farming





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by
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常州大学图书馆
藏书章

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ISBN 978-92-5-107547-0 (print)
E-ISBN 978-92-5-107548-7 (PDF)

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Preface

A lot is being said these days about farmers becoming 'entrepreneurs'. But what is entrepreneurship? What does it take to be entrepreneurial? How can an entrepreneurial behaviour be created and sustained? How can entrepreneurial skills be developed? How do entrepreneurial farmers respond to the changing farming environment? What strategies do they use? What actions do they take? And how can extension workers help farmers develop entrepreneurial capacity?

There are two parts to entrepreneurship. The first is the managerial skills needed to start and run a profitable farm business. The second is 'entrepreneurial spirit'. Both are important. Managerial skills can be taught, but an entrepreneurial spirit cannot be taught. Many farmers are already excellent managers and many also have some of the spirit of an entrepreneur. As 'price takers' many farmers have developed outstanding abilities to make the most of their resources. But being 'price takers' suggests that these farmers are not innovative, do not take risks, and lack the drive that is usually associated with an entrepreneurial spirit.

The purpose of this guide is to provide a better understanding of the concept and practice of entrepreneurship. With this understanding it is hoped that extension workers will be better able to help farmers develop the skills and spirit of an entrepreneur. It is part of a series of booklets on farm business management designed to help extension workers support farmers.

What is presented in this guide can be applied to people who want to start a farm business for the first time and to farmers who are already running a farm business. In every country, both situations occur. Many existing farmers want to make changes to their farming systems by introducing high value enterprises directed to the market. There are also many newcomers (young and old, male and female) entering farming who are starting with their first farming enterprise. This guide can help extension workers help all of these potential farmer-entrepreneurs.

While field level extension workers will rarely be responsible for designing and organizing trainings in entrepreneurship development, it is useful for them to understand what works and what doesn't. Sometimes they may be work closely with Subject Matter Specialists who have experience in management training or even in facilitating external trainers.

Acknowledgements

The author would like to acknowledge the assistance of colleagues and friends. Thanks are due to Steve Worth and Martin Hilmi for their review of the guide, Joanne Morgante and Ana Pizarro, who managed the post-production process and the design and final layout of the publication.

David Kahan

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Chapter 1

Understanding entrepreneurship in farming

MAIN POINTS IN CHAPTER 1

What is entrepreneurship?

Entrepreneurship is a key factor for the survival of small-scale farming in an ever-changing and increasingly complex global economy. But what is entrepreneurship in agriculture? How does it relate to small-scale farmers who operate on the edges of the economy?

Farmers as entrepreneurs

Farmer-entrepreneurs see their farms as a business. They see their farms as a means of earning profits. They are passionate about their farm business and are willing to take calculated risks to make their farms profitable and their businesses grow.

The entrepreneurial environment

Farmer-entrepreneurs operate in a complex and dynamic environment. They are part of a larger collection of people including other farmers, suppliers, traders, transporters, processors and many others. Each of these has a role to play in producing products and moving them through to the market – through the value chain. Each one needs to be an entrepreneur. They also need to respect each other and work together to make the whole system work better and be more profitable.

Entrepreneurship dynamics

But beyond this, successful farmer-entrepreneurs are technically competent, innovative and plan ahead so they can steer their farm businesses through the stages of enterprise development – from establishment and survival to rapid growth and maturity. However, there are many challenges that these farmers face: social barriers, economic barriers, regulations, access to finance and information, and their own managerial capacity to cope with risks and changes and to seize opportunities.

WHAT IS ENTREPRENEURSHIP?

Entrepreneurship, value chains and market linkages are terms that are being used more and more when talking about agriculture and farming. Many small-scale farmers and extension organisations understand that there is little future for farmers unless they become more entrepreneurial in the way they run their farms. They must increasingly produce for markets and for profits. Becoming more entrepreneurial can be a challenge for small-scale farmers. They will need help from extension workers and other institutions.

What is an entrepreneur? An entrepreneur is someone who produces for the market. An entrepreneur is a determined and creative leader, always looking for opportunities to improve and expand his business. An entrepreneur likes to take calculated risks, and assumes responsibility for both profits and losses. An entrepreneur is passionate about growing his business and is constantly looking for new opportunities.

For small-scale farmers to become more 'entrepreneurial' assistance from extension workers and supporting institutions is needed

Entrepreneurs are also innovators. They always look for better and more efficient and profitable ways to do things. Being innovative is an important quality for a farmer-entrepreneur, especially when the business faces strong competition or operates in a rapidly changing environment

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FARMERS AS ENTREPRENEURS

Small-scale farmers often have entrepreneurial qualities.

Can small-scale farmers become entrepreneurs? Yes. Small-scale farmers all over the world have shown a remarkable ability to adapt. They look for better ways to organise their farms. They try new crops and cultivars, better animals, and alternative technologies to increase productivity, diversify production, reduce risk – and to increase profits. They have become more market-oriented and have learned to take calculated risks to open or create new markets for their products. Many small-scale farmers have many of the qualities of an entrepreneur.

For small-scale farmers to become entrepreneurs they need all of these qualities and more. They need to be innovative and forward-looking. They need to manage their businesses as long-term ventures with a view to making them sustainable. They need to be able to identify opportunities and seize them.

The farmer-entrepreneur produces a clear picture in his mind of what is possible and future he wants.

Some small-scale farmers do have these qualities, but they still focus on maintaining their traditional way of life. Their production decisions are based on what they need -- not on what is possible.

The farmer-entrepreneur produces a clear picture in his mind of what is possible and the future he wants. He knows that what is possible is determined by the market. The farmer-entrepreneur is always looking for new opportunities. He knows that new opportunities are found in the market. The farmer-entrepreneur wants to make profits. He knows that profits are made in the market.

An entrepreneurial farmer has the initiative, drive, capacity and ability to take advantage of opportunities.

Smallholder farmers usually farm for one of four reasons:

- Exclusively for home consumption with rarely any surpluses produced;
- Mostly for home consumption, but with the intention of selling surpluses on the market;
- Partly for the market and partly for home consumption; or
- Exclusively for the market.



Figure 1
**Ladder of intentions
and reasons for
farming**

On the first rung of the ladder are farmers who farm exclusively for home consumption. If there is a surplus, they will sell it on the market, but this is very rare. Often these farmers are struggling with the basic survival of themselves and their families. They usually lack security in terms of health, water, food and shelter. They are rarely in the position to commit their minds and bodies to entrepreneurial tasks. While they may be entrepreneurial in spirit, they usually lack the opportunity to farm as entrepreneurs.

Smallholder farmers may be entrepreneurial in spirit but they often lack the security to take risks

On the second rung are farmers who have greater opportunities that allow them to produce beyond just surviving. These opportunities are still very limited. However, by changing their resource mix and overcoming access and risk issues, opportunities can be expanded. Such farmers are sometimes viewed as 'pre-entrepreneurial', requiring support to move into a more independent position. At this level the farmers are not 'entrepreneurs' in the true sense and neither are they truly market-oriented. They have a greater appreciation of the market and have expanded their survival farming to include some economic activities. They are just starting out on the path towards developing profit-driven farming businesses.

Entrepreneurial farmers need access to finance, land, labour, information and knowledge to be successful.

These farmers do yet see their farms as businesses. Long-term investment is not yet a priority. They are hesitant about diversifying to higher value products. They are comfortable selling surpluses of their foodrops. Shifting to cash crops is too extreme and involves risks that they are not willing to take.

The third rung represents farmers who understand the value of farming for the market, but are often limited by access to finance, labour or market information. The elements are all there, but they cannot risk family food requirements without greater certainty of income from cash crops. The choice between producing primarily for the market with some produce utilised for home consumption or primarily for home consumption with some produce sold in the market depends on their circumstances and their willingness to take risks.

Farmers on the fourth rung are fully market-oriented. Their primary reason for farming is to make profits by producing for the market. They are interested in profits, not food production. To be successful at market-oriented farming, the farmer needs greater farm management and entrepreneurial skills.

THE ENTREPRENEURIAL ENVIRONMENT

Being an entrepreneur is a way of life and a way of looking at the world. Entrepreneurs enjoy independence and freedom. They decide for themselves what to do and when to do it. Entrepreneurs also face risks, work under pressure and are immediately accountable for the outcomes – good or bad – of their decisions.

While farmer-entrepreneurs are free and independent, they do not work alone. They operate in a complex and dynamic environment. They are part of a larger collection of people including other farmers, suppliers, traders, transporters and processors, each of whom has a role to play in the value chain.

Being an entrepreneur is a way of life and a way of looking at the world.

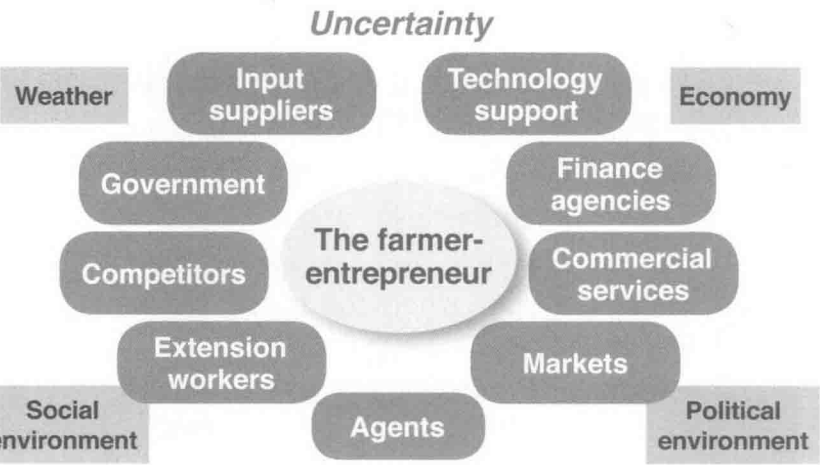


Figure 2
The world of the farmer-entrepreneur

For farmers to cope with the risks they will face in the complex world in which they compete, they need to develop an entrepreneurial spirit. A farmer with an entrepreneurial spirit energetically, enthusiastically and carefully makes many different decisions about his farm in the context of the value chain that influences the profits of the farm business. This is all happening in a dynamic, ever-changing and uncertain setting.

An entrepreneurial farmer makes farming decisions in a complex competitive and collaborative environment.

To make sure their farm businesses develop and adapt in response to these changes, farmer-entrepreneurs need to:

- Stay focused on their purpose;
- Do their best to turn every event to their advantage;
- Seize every opportunity and make the best of it;
- Make the whole system work in their favour.

This is living in the spirit of entrepreneurship.

THE 'WAY OF LIFE' OF A FARMER-ENTREPRENEUR

- Freedom in making decisions about the business and the relationship with family
- Control over what has to be done, when and in what order
- Working alone often in solitude
- Coping with a wide range of managerial and 'day to day' tasks
- Lives with uncertainty; if you can't generate profit you may not survive in the future
- Risking personal assets and security
- High level of responsibility and risk of failure
- Lives with an inability to control the actions of stakeholders upon whom the success of the business depends
- Develops trust and alliances with other stakeholders where mutual benefits exist
- Works long and irregular hours to meet demands
- Closely interwoven family and business life
- Social status is linked to the success of the business
- 'Learns by doing' under pressure from stakeholders, by solving problems, experimenting, seizing opportunities, and learning from competitors

GROUP ENTREPRENEURSHIP

Entrepreneurship can also occur among groups of farmers who want to form a business together. These farmers have similar goals and objectives and a willingness to share the benefits and risks. Ownership and control of the enterprise are divided among the group members. The group is the financial investor, employee and risk-taker.

Some smallholder farmers are more secure if they work together with others in a group

Group entrepreneurship is particularly attractive among those farmers who would not be able to start an entrepreneurial business on their own. Often these are the poorest farmers in the community or the farmers with the weakest links to the economy. They seek security through group activities which allow them to pool their resources, share the risks and develop a social 'safety net'.

To be successful, group enterprises must have the same entrepreneurial skills and spirit as individual entrepreneurs. Group members need to have the desire to be self-employed, the motivation to undertake something new, the willingness to take calculated risks and the mind-set of always looking for opportunities. They must be willing to work together in a common productive activity and to take full responsibility for the outcome.

This is often a first step towards individual entrepreneurship

There are many advantages to group entrepreneurship. Key among them are:

- Group solidarity
- Greater power from pooled resources
- Drawing on shared life/business experience
- Protection from shared 'enemies' in the form of exploitive traders and markets
- Drawing on the common desire to progress and advance economically