

FARMER ENTREPRENEURSHIP IN NEW ZEALAND SOME OBSERVATIONS FROM CASE STUDIES

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ABSTRACT

1984 was a watershed in New Zealand agriculture which led to a flowering of entrepreneurial activity by some New Zealand farmers. A change of government and a national economic crisis led to a complete and drastic review and subsequent restructuring of the agricultural sector. Farmers were forced to recognize that they could no longer rely on government support but had to meet the market. This paper reflects on research carried out at Lincoln University that has focused on case histories of some successful farmer entrepreneurs who grew out of this era. It attempts to link the case studies involved to concepts enunciated in the academic literature, especially those of performance and opportunity gaps, strategic intent, marketing strategies and supply chain dimensions in the creation of value.

Key words Farmer entrepreneurship, case studies, strategic intent, marketing strategies, supply chain architectures, chain coordination

INTRODUCTION

In 1984 the internal operating environment of New Zealand farming changed dramatically, and almost instantaneously, with the election of the Lange government. Firstly, it devalued the New Zealand dollar, and within twelve months floated it, which because of high internal interest rates led to a substantial revaluation and put the export sector under real pressure once again. Contemporaneously the government also withdrew almost all of its support for agriculture. Price support schemes were withdrawn, various input subsidies cancelled and concessional interest rates were abandoned, all of which created a debt crisis within the sector. The Rural Bank & Finance Corporation (Government owned) estimated at the time that some 15,000 farmers out of a population of 60,000 were at severe risk and that 5000 of them were in a critical debt situation facing foreclosure. The Government recognized that it had changed the rules, putting many farmers in a situation not completely of their own making, and therefore instituted a debt discounting scheme that stabilized the land and agricultural finance markets. It is not the focus of this paper to work through all the policy processes and results of this turbulent period but rather to focus on one outcome – the flowering of individual farmer entrepreneurship in New Zealand agriculture. The term flowering is used quite specifically to signify that while a spirit of entrepreneurship has always existed in New Zealand agriculture and had shown growth spurts from time to time it has become much more obvious and diversified at the individual farmer level over the last two decades. This paper comments on the further development of research that Gow & Lough reported in 1993 at the Budapest conference.

NEW ZEALAND ENVIRONMENT

New Zealand agriculture is rather unique in a world context in that the great majority of its agricultural output, and especially its main pastoral products, are exported. Thus the domestic market is of relative insignificance in determining farm incomes. As a consequence, farm gate prices were historically controlled by a range of producer boards, farmer co-operatives and corporate exporters which gave individual farmers little scope to compete with one another

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except on a physical production basis. Prior to 1984 most farm based entrepreneurship revolved around exploiting new production options for existing products. The Kiwifruit industry exploited a favorable environmental niche, the deer industry was born out of the realization that a pest could be refocused on profitable production rather than extermination, and the black currant was transferred from the home garden to a commercial scale. In the main these developments were driven by farmer investors and other associates who were looking for new challenges and who could, with the help of taxation concessions, take the financial risks involved without jeopardizing their core businesses. It is important to note that all these industries had to survive a period of boom and bust before they consolidated back to a stable production base operating successfully in an open economy and a globalized world.

Increasing globalization and the establishment of the WTO and various free trade agreements have been seen in New Zealand both as challenges and opportunities. The challenge to New Zealand agriculture has been to keep improving the efficiency of its commodity supply chains while at the same time developing and exploiting value creation options. It has meant that the New Zealand industry, both nationally and individually, has been required to identify its sources of competitive advantage. The economic restructuring post 1984 shocked the existing system into a heightened understanding of the need for change. As Schumpeter (1942) enunciated we live in a world of creative destruction which requires individual entrepreneurs to grasp opportunities for creating profitable competitive positions that others either ignore or fail to exploit. The essence of entrepreneurship is more than just discovery and innovation, but must include the ability to act and initiate.

ENTREPRENEURSHIP & INNOVATION

Drucker identifies seven sources of innovation in his treatise on entrepreneurship which provide a useful framework for thinking about the subject. This author would argue however that in the New Zealand post 1984 context the need to survive was the most important stimulus to changing individual farmer mind sets. The rationalization of institutions and firms involved in input supply, processing, finance and marketing reinforced the need for change in rural communities and led to a growing focus by individuals on ways to create new value. Prahalad's (1993) concept of the role of performance gap and opportunity gap in value creation provides a useful differentiation of farmer reactions in New Zealand. (See Appendix I) The former has always been at the forefront of agricultural decision making and remains the focus of many farmers today, but the opportunity gap/revitalization concept has captured increasing attention over the last two decades. As agribusiness firms have consolidated and supply chains shortened and as the commercial environment has become much less restrictive farmers, individually and collectively, have realized that establishing new supply chains and retaining ownership further down the chain brings increased rewards. These farmers came to recognize that cost leadership was not the only source of competitive advantage but that product differentiation had much to offer the innovative and the brave. It meant however a change from being production oriented to being market oriented. Furthermore they had to establish their own supply chains and grow them into co-coordinated value chains. It also meant a shift from commodity markets to niche ones; they had to move from a world of adversarial relationships to one of relationship management.

This paper reflects on the results of a number of qualitative case studies of entrepreneurial farmers carried out by a group of faculty and graduate students of Lincoln University, all fascinated by the emergence of a number of entrepreneurial farmers. Some brief descriptions of entrepreneurial cases which are public knowledge are given in Appendix II.

KEY STUDIES

Giera (1999) in his study developed a model of emerging entrepreneurship in New Zealand farmers (Appendix III) using an entrepreneurial scorecard approach. From his study of fifteen individual sheep & beef farmers, only three of whom relied on the performance gap to create value, he concluded that the circumstances likely to foster entrepreneurship in New Zealand farmers were: achievement of most farm production goals, facing increasingly poor returns, seeking new challenges, frustration with current system for selling and rewarding products, awareness of opportunities for competitive advantage, resources to withstand transition period of uncertain income and having the confidence to manage a new non-traditional business. Giera concluded that “these farmers have looked at their current farm situation and actively sought alternative measures to improve it. These farmers are not bound by convention or image, but perceive change as exciting and often necessary to enhance their farm business. The major change the entrepreneurial farmer has made is that they have all gained more control over the price they receive by increasing the scope of their position on the value chain”. He also identified that while advanced marketing strategies are an avenue for the manifestation of farmers’ entrepreneurial tendencies they may also act entrepreneurially in production and processing.

Harsh (2003) in his study of seven farmer entrepreneurs took up the challenge of investigating the alignment/relationship between farmer entrepreneurship and advanced marketing strategies. The farmers involved represented a range of crop and property types from traditional arable and orchard crops to specialty vegetables and organic chickens. He concluded that production based farmers did not “believe that marketing is part of their responsibilities or competencies and did not perceive it to be a valuable part of their operations.” He further identified that “the pursuit of advanced marketing strategies is related to a combination of three factors: entrepreneurship, a perceived competency in marketing, and a belief that marketing is a valuable business function.” A key realization of the Harsh study is the importance of relationship management in successful marketing and that the more active farmers became in marketing their products the more proactive they became driving supply chain relationships, probably because as sellers they had more to lose than the buyers.

While individual farmers have been developing their own personal entrepreneurial activities, others have been involved in group entrepreneurship, and some in both. The Rossendale Beef & Burgundy case study by Gow & Gow (2000) is an example of both. Three examples of group initiatives are wine export, lamb export and gourmet potato marketing. All of them involve interesting examples of the development of appropriate organizational structure and the need for excellent relationship management both internally and externally. Oliver (2001) in his study of entrepreneurship in the wine industry focused on the interesting phenomenon of five individual wineries forming a separate business entity whilst maintaining their individual enterprises. This study of entrepreneurial growth provides a nice demonstration of Prahalad’s (1993) concept of value creation as an exploitation of both performance and opportunity gaps and an illustration of the concept of strategic intent. This case study was further developed as an application of supply chain architecture by Gow, Oliver & Gow (2002). A recent commercial opportunity presented to Cellars of Canterbury by the Tesco’s supermarket chain is a good illustration of the concept of strategic intent which forced the Cellars’ partners to review their operation, regretfully decline the opportunity but allow two members – the farmers, to realize it. The most exhaustive case study of entrepreneurial growth by a group of New Zealand farmers is contained in the Fortex Story in which the author Sandra Martin documents the rise and demise of a major meat processor.

Other important dimensions of land based entrepreneurial supply chains are questions of product specification and chain coordination, and the role of chain captain. These topics are



too large to be addressed in this paper but the study by Moura, A.D., Martin, S., & Mollenkopf, D. (2004) has this focus and includes an excellent diagram of three chain model (Appendix IV)

CONCLUDING REMARKS

While it is accepted that case studies are snapshots of individual situations, they do with careful interpretation provide signposts as to direction in which a given study group might be moving. They also have the capacity to stimulate research hypotheses or explore linkages with theoretical constructs in the academic literature. This paper has attempted to highlight some of those signposts and linkages in a New Zealand setting without in any way being definitive. One thing that this author has learnt about entrepreneurial farmers is that they share two common attributes – a passion for innovation and a common complaint that they have more ideas than they have time to realize them. I believe that entrepreneurs are born not made, and that while knowledge, education, skills and training are useful attributes in the final analysis genotype is more important than phenotype. I also believe that the “cold turkey” restructuring of agriculture in New Zealand firstly shocked and then catalyzed those of the appropriate management style into action they do however need sympathetic, lightly regulated business environment that allows them adequate scope in which to express themselves. As a thoughtful farmer keeps telling my students – opportunities pass the farm gate every day those who take them up, nurture and develop them are not lucky, they deserve to be called entrepreneurs.

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