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Analysis of constraints for performance improvement of FPCs in Tamil Nadu

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ABSTRACT

The urge for bringing small holders together is to offset the negative effects of increasing urbanization, decreasing land area under cultivation and the other reason being poor resource base of farmers making them unable to operate their farm with limited capital while agriculture is becoming non-competitive. Therefore to protect the interests of small and marginal farmers the farmer producer companies (FPCs) were included in the special provision of Producer Companies Act 2002. In the present study twenty FPCs were selected purposively for the study based on the highest paid-up and authorized share capital. Focus group discussion (FGD) method was employed in collecting the details of constraints of the selected FPCs where the farmers and administrative members like CEOs and BODs constituted the participants. Altogether 20 FGDs were conducted to cross check/validate the response from the farmers and the survey. The study probed the driving forces in performance of FPCs by employing qualitative tools and also assessed the challenges in the operations of FPCs. The results revealed that the driving factors were potential of branding purchase of machines and assets, scope in value addition, active dissemination of market information, price setting and credit for purchase. The challenges faced by FPCs were: problem in obtaining bank loan, no waiving off of license fee, cumbersome process of registration of FPCs, not able to raise funds from farmers and capturing market for selling the produce which were the major causes for failure of some FPCs in the state.

Keywords: Force field; constraints; FPC; performance

INTRODUCTION

Now and then for years, the only sector whose uncertainties are persisting with no proper consistent solution is agriculture and its business. As most of the farmers in India are small and marginal, coping to the restraining factors is difficult owing to factors like small landholdings, economically weak status, outbreak of pests and diseases, high cost of delivering produce to customers, high agency costs and no reasonable returns from produce. So the imminent need is to bring a new breath of fresh air for the problem and one such initiative brought is farmer producer companies (FPCs).

FPCs were established in order to bring up a better market by linking all the stakeholders of agribusiness owing to failure of cooperatives in marketing the agricultural produce.

The livelihood of small farmers in India is becoming vulnerable aftermath of privatization and globalization of the economy. The growing foreign investment in agribusiness has been threatening small farmers to cope up with emerging business climate. Due to increased fragmentation larger proportion of farmers with marginal landholdings faces variety of issues pertaining to credit, market access, modern retailing and technology adoption. Therefore the key rationale required is hand holding support for rural farmers by promotion of FPCs that paves way for developing remunerative agriculture for the small farmers and to establish a better market potential in the era of competitiveness by leveraging the benefits of economies of scale. So aggregating small farmers into FPCs provides a pathway for the rural farmers to amplify investment, better negotiate, move up value chains and improve access to technology and markets.

Consequently these farmers' organizations need to be promoted to combine the advantages of decentralized production and centralized services, post-harvest management, value addition and marketing.

Facets of FPCs

Distinctly the farmers' organizations are formed with the base constituent of farmer unions, farmer cooperatives, farmer groups and commodity associations helping in the upliftment of livelihoods of rural producers and their development in terms of rendering access to credit, infrastructure facilities and technology access.

Precisely producer companies are those with their own infrastructure for processing, brand identity and marketing the produce in domestic and global markets. Farmer producer company (FPC) is a company of farmer producer members as defined in section IXA of the Indian Companies Act 1956. The concept of producer companies can be analyzed within the general trend of farmer organizations transforming into more market-oriented and business-oriented forms of institutions. It represents a tool for small farmers to get organized and to reap benefits not only from joint action but also from links to evolving high-value markets in India's urban centres. The organizational structure of producer companies borrows much from the cooperative idea but they are professionally managed to ensure economic viability and to prevent political leverage (Trebbin and Hassler 2012).

The study focussed primarily on the performance estimation of currently established and running FPCs in order to analyse its driving forces and their potential challenges in running the FPCs.

Smallholder farmers are confined to lack of access to capital and bank loans, support services, agricultural inputs, adequate technology and equipment and face difficulties in delivering products of required quality and quantity. In addition there exists lack of adequate market information, knowledge and consulting. In the end voracity of stakeholders in the value chains (processors, wholesalers, retailers, exporters) seeks reliable producers and business partners who can respond better to their compliance of market requirements and deliver products at a reasonable price, in required quantity and quality consistently over a long period of time. Affirmly smallholder farmers cannot respond to their requirements striving to make contracts with bigger producers that can deliver large volumes and food quality standards (Birthal and Joshi 2007, Mangnus and de Steenhuijsen Piters 2010). By curbing these smallholder farmers and registering them as FPC would bring more advantage by linking the stakeholders of value chain and a better market can be deployed.

Ragasa and Golan (2014) explored the role of rural producer organizations for agricultural service provision in Democratic Republic of the Congo. The results revealed that membership commitment was highly and positively correlated with performance of rural producer organizations and in order to sustain financial contributions from members and operations of rural producer organizations. Authors also suggested that the support measures had to focus on the economic viability and increasing income for the members. On the other hand marketing training and extension approaches including training on value chain approaches were said to be the important strategies drawn for supporting rural producer organizations.

Dhakal (2013) worked on the internal and external forces that drive better performance of seed producer organizations in Nepal. Results revealed that internal factors of group, nature of extension support, quality control mechanism and seed marketing approaches were considered to be the key elements affecting the performance of farmers' seed organizations and cooperatives. Internal factors lead organizations performed better since organizations were developed with farmers' own initiatives as compared to organizations that were formed through external influence. This research suggested that the autonomy of group actions has long term impact on ownership development. Similarly business, technical and organizational management skills were considered to be equally important for succeeding and sustainability of farmers' organizations.

The critical success factors are essential for any company's performance to hinge on for long term sustainability. Christian (2015) identified forty five critical success factors (CSFs) for MSMEs stemming from operational channels and embracing them into four groups such as externalities, strategy, finance and organization. The CSFs were identified under the channels supply chain, production and distribution which is analysed using analytical hierarchy process. It was identified and prioritized the most critical path as the supply chain while the highest critical axis is the finance area followed respectively by strategy, externalities and organization axes.

The focus of the present paper was identifying factors driving the performance of FPCs and to understand the factors inhibiting performance across FPCs using force field analysis. Also the appropriate strategies were devised for better performance of FPCs addressing all the concerned issues in their running.

METHODOLOGY

The study was conducted using qualitative methods. Twenty FPCs were selected purposively based on the highest paid-up and authorised share capital. Primary survey was conducted by focus group discussions (FGDs) with the selected FPCs where the farmers and administrative level members like CEOs and BODs participated. In all 20 FGDs were contacted to cross check/validate the responses from the farmers and administrative survey. The discussion was focused on factors driving the performance of FPCs and the challenges they faced in running the business.

The sample FPCs comprised purely farm business related producer companies to maintain the uniformity and understand the operational dynamics of such entities and the challenges in functioning of the FPCs. Information was also collected from various secondary sources such as online database of SFAC, Ministry of Corporate Affairs, NABARD reports, IIM working paper etc.

Force field analysis

The force field analysis was done on the grounds to improve the performance of FPCs and probability of success. Brainstorming on force field analysis among the CEOs and BODs was done to identify the list of forces that were driving the performance and impeding the growth.

To carry out a force field analysis following five steps were followed:

Step 1: The goal to be achieved was described (improve the performance), defined and written in a box in the middle of the page.

Step 2: The forces that were driving change were identified as branding, purchase of machine and assets, scope in value addition, active dissemination of market information, price setting and loan credit for purchase.

The forces driving the improving of performance were added to the left-hand side of force field analysis.

Step 3: The forces hindering the performance of FPCs were identified. The forces that resisted the improvement of performance were brainstormed as difficulty in getting agribusiness linkage due to intermittent production, cumbersome process of registration, no plan paying out dividend, marketing issues and uncooperative members.

The forces against improvement were added to the right hand side of the force field analysis.

Step 4: Scores were assigned. Each force from, say, one (weak) to five (strong) were scored according to the degree of influence each one had on the goal of performance improvement and then the scores for each side added (for and against).

For a visual representation of the influence that each force had, arrows were drawn around them. Bigger arrows were used for the forces that had a greater influence on the goal and smaller for forces that had a weaker influence.

Step 5: Analysis and application were done. It was done to think about which supportive forces could be strengthened and which opposing or resisting forces could be weakened and how to make the change more successful.

For the current changing innovative retail environment the appropriate strategies should be quick and creatively organizations need to strengthen their competitiveness by building capabilities that provide enduring sources of competitive advantage.

Responses-priority index (RPI)

To resolve in the quantification of constraints expressed by the administrative members of FPCs in running the FPCs whether emphasis should be given for the number of responses to a particular priority or to the highest number of responses to a constraint in the first priority a responses-priority index (RPI) was constructed as a product of proportion of responses (PR) and priority estimate (PE) where PR for the i^{th} constraint is the ratio of number of responses for a particular constraint to the total responses as per equation:

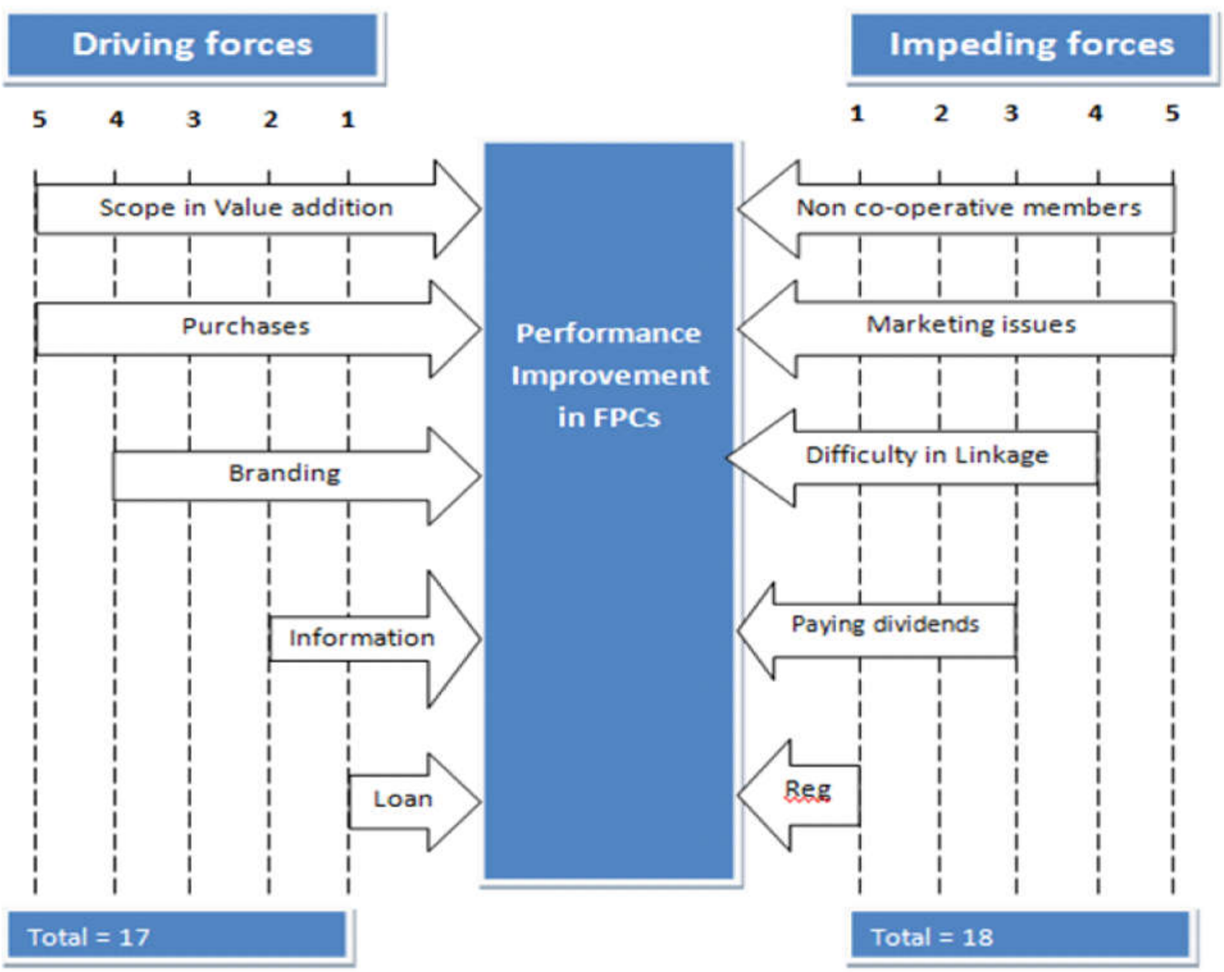
$$(RPI)_i = \frac{\sum_{j=1}^{k} f_{ij} X_{[(k+1)-j]}}{\sum_{i=1}^{l} \sum_{j=1}^{k} f_{ij}} \qquad 0 \leq RPI \geq 5$$

where RPI_i = Response priority index for i^{th} constraint, f_{ij} = Number of responses for the j^{th} priority of the i^{th} constraint (i= 1, 2……, l; j= 1,2,3…..k), $\sum_{j=1}^{k} f_{ij}$ = Total number of responses for the i^{th} constraint, k= Number of priorities (1- Strongly agree, 2- Agree, 3- Moderate, 4- Disagree, 5- Strongly disagree), $X_{[(k+1)-j]}$ = Scores for the j^{th} priority, $\sum_{i=1}^{l} \sum_{j=1}^{k} f_{ij}$ = Total number of responses to all constraints

Larger the RPI higher was the importance for that constraint. In the present study constraints identified were problem with obtaining bank loan, no waiving off of license fee, cumbersome process of registration by FPCs, inability to raise funds from farmers and difficulty in capturing market for selling the produce.

Performance of FPCs

Force field analysis tool was used to analyze the forces that influenced the performance and the forces that impeded the performance of farmer producer companies in



(+ Addition should be made in driving forces, - Reduction should be made in restraining forces)

Fig 1. The diagrammatic description of driving and restraining forces

order to improve their probability of success. This analysis paved way to visualize the supportive forces that were to be strengthened and which opposing forces that could be weakened to bring up the improvement in performance of the FPCs. The diagrammatic description of driving and restraining forces is depicted in the Fig 1.

The forces that were driving the performance as opined by the respondents were potential of branding, purchase on machines and assets, scope in value addition, active dissemination of market information, price setting and loan credit for purchase. The restraining forces identified were difficulty in getting agribusiness linkage due to intermittent production, cumbersome process of registration, no plan paying out dividend, marketing issues and uncooperative members.

Fig 1 depicts that the restraining forces had greater weightage (18) as compared to the driving forces (17). Seemingly the impeding forces had to be reduced to improve the performance of FPCs by increasing the driving forces. To make changes either driving forces need to be strengthened or impeding forces have to be reduced. In the present study restraining forces were high so emphasis was given to reduce the restraining forces and the strategies to improve them.

Value addition and collective procurement had a strong influence on the performance of the FPCs while branding, market information and providing credits were found to be least influencing the performance compared to the previous forces.

Similarly non-cooperative farmer members, marketing issues and difficulty in forward linkage activities were strongly hindering the performance of FPCs as compared to other forces paying of dividends and registration of FPCs were less hindering.

Restraining forces and the reduction strategies

Attempt was made to improve the success in performance of FPCs by reducing the restraining forces.

Marketing issues: Marketing issues were addressed in the study as more number of intermediaries, threatening from existing marketers, lack of price discovery of agricultural produce and lack of knowledge on marketing strategy. This problem could be offset by FPCs through collective procurement and sale. When aggregation of produce was made farmers were empowered to have the bargaining power to sell for a better price. Through FPCs a better supply chain can be established by creating direct link with the forward players whereby the number of intermediaries are eliminated leading to reduction in cost of marketing. Through capacity building trainings on how to approach market and the marketing strategies could be conducted for selected farmers and BoDs who can manage the marketing function of the FPCs. In addition to this government can make initiative to provide information on different markets, market price, quantity of production through all kinds of media that could reach the rural farmers and benefit them. This information would be beneficial to both farmers as well the traders so that the existing gap between production and demand could be eliminated and agricultural marketing is enhanced in a better way.

Non-cooperative members: Most of the FPCs were facing the problem of lack of unity among its members. The conflicts were becoming irresolvable and even some of the companies had closed their operations. So a proper focus has to be given in addressing the conflicts among farmers (shareholders) of different groups and board of directors. The conflict can be managed through capacity building for which training programmes on handling the issues of conflict could be conducted by the board of directors. Also efforts should be made to create awareness on benefits and importance of collective farming in every village.

Difficulty in forward linkage: Because of the presence of many competitors, creating linkage with the forward players was a challenging task for the FPCs. There existed a challenge of intermittent production due to which it was difficult to provide continuous supply and also there was no sufficient information about buyers. The reasons for intermittent production were change in weather conditions, small fragmented lands and crops prone to new pests and diseases. Perhaps farmers were also reluctant to share their land or work at a common land for cultivating crops. If the farmers worked together they could take advantage of collective purchase of inputs such as seeds, fertilizers, pest etc. They could also market their produce in bigger markets. These challenges could be overcome by FPCs through pooling resources and among board of directors from FPCs a facilitator could be appointed for marketing.

Non-paying of dividends: Most of the problems were interrelated and paving way for the conflicts due to lack of trust on the company. This could be addressed through a way of promising return to farmers from earnings of the company. Farmers desired return on their invested share. Since most of the companies were at their nascent stage in business it was difficult for the companies to pay the dividend as they were reinvesting the amount in the business for further development. To increase growth the strategy was to diversify the business into different activities like input production and sale, value addition and branding to bring more profit to the company.

Registration of companies: FPCs faced problem of registration as they did not have firsthand knowledge guidance about registration process and business set up. On the other hand companies promoted by agencies had guidance at every stage of company set up. Challenges faced in registration of companies were: no prior knowledge on procedures of registration under companies' act, high amount required to be paid to auditors due to the constraint of capital, stringent compliance requirements and it being a time taking process. This could be solved by making the procedure simple and reducing the total cost of incorporation and at the same time the government could provide auditor assistance for the new producer companies.

Problems faced by farmer producer companies in running the business

The CEOs and BoDs were asked to list five major constraints they had been facing in running FPCs priority-wise. All these were sorted, screened and finally five major constraints were identified and are presented in the Table 1.

The constraint 'capturing market for selling the produce' was the biggest constraint with value 0.93 followed by 'not able to raise funds from farmers' with value 0.82. Third major constraint was 'cumbersome process of registration' that ranked third (0.77) followed by 'no waiving of license fee' and 'problem with obtaining bank loan' with values 0.73 and 0.60 respectively.

CONCLUSION

The study concluded that with critical issues sorted out to be as marketing issues and uncooperative members were proven to be the most potent threat with greater weights stymieing the performance of FPC followed by difficulty in getting agribusiness linkage owing to intermittent production and supply of produce /commodities by the farmers. No plan on paying out dividend is making the farmer members go unfaithful on moving further with the business. Self-promoted companies feel the process of registration of companies is quite complicated and getting government assistance is a cumbersome process. Secondly better strategy for small farmers is to work in a group for collectively purchasing inputs such as seeds, fertilizers, pesticides etc so that the total cost in producing and marketing could be reduced.

Despite these conditions FPCs would serve as a better compromise by bringing about the opportunities for value addition through technical support from food processing institutes. Besides value addition brings about additional income to the farmers whereby it encourages producing and creating value added products exploring the untapped potential market. Since the infrastructures were being made accessible, famers could have access to all the facilities they required at one point in their FPC until the business completed 7 to 10 years. FPCs will payout the dividend. Also farmers have access to fund without collateral operating with group as a guarantee. More funds can

Table 1. Rank-wise constraints faced in running FPCs

Constraint	Number in respective priorities					Total (recorded responses)	RPI	Rank
	SD	D	M	A	SA			
Capturing market for selling the produce	0	0	05	27	68	100	0.93	I
Not able to raise funds from farmers	0	0	10	69	21	100	0.82	II
Cumbersome process of registration by FPCs	0	15	20	32	33	100	0.77	III
No waiving of license fee	14	05	05	56	20	100	0.73	IV
Problem with obtaining bank loan	20	10	30	30	10	100	0.60	V

SD: Strongly disagree, D: Disagree, M: Moderate, SA: Strongly agree, A: Agree be gathered from the members if big plans are envisioned. Easy access of funds and other support services by the government and donors which is difficult for an individual farmer to obtain whereby implementing such strategies would bring a better performing and sustainable FPCs in the future.

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