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ICAM

International Conference on
Agribusiness Marketing



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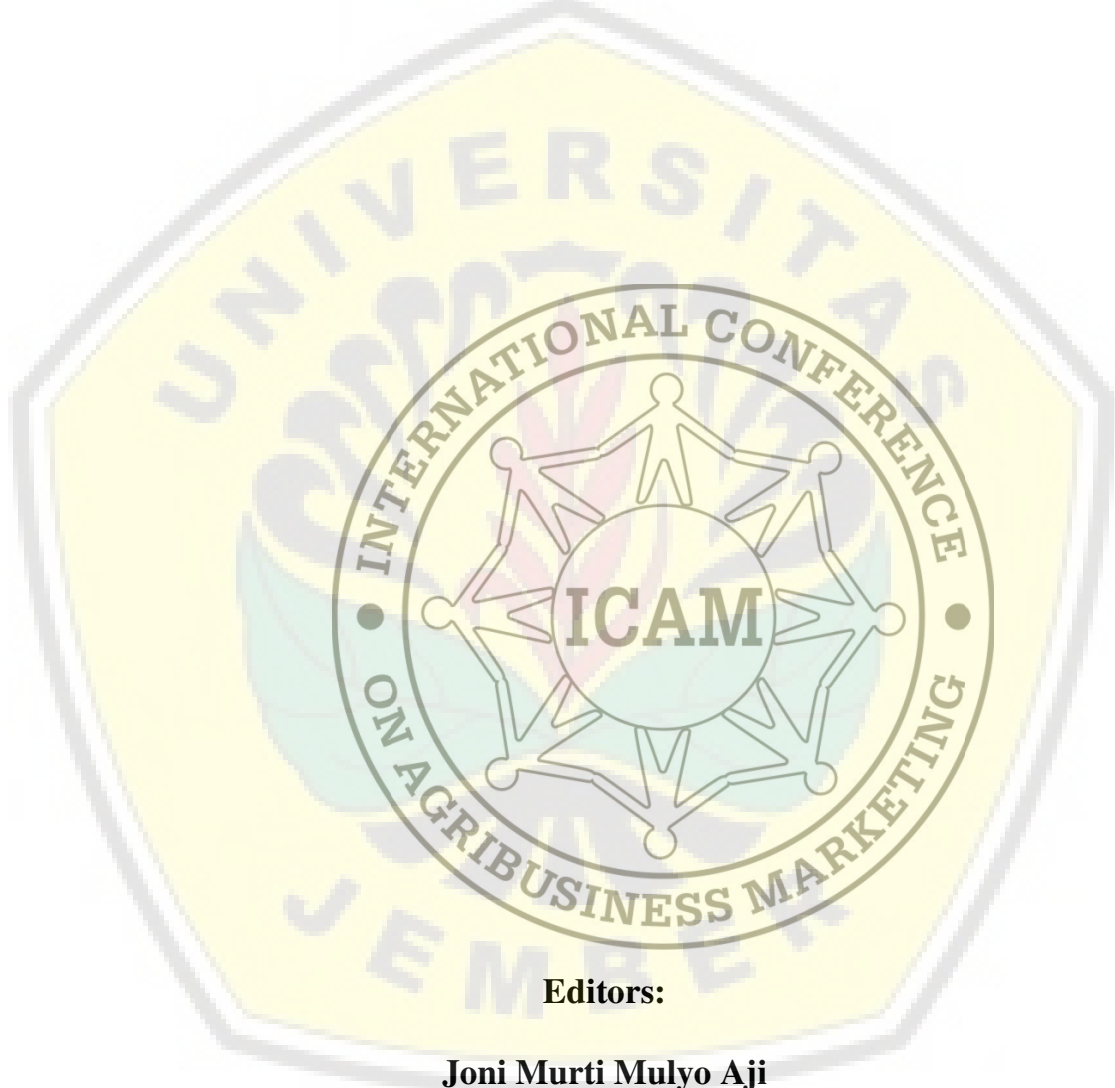
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Membangun Generasi Menuju Insan Berprestasi

Proceedings
International Conference on Agribusiness
Marketing
(ICAM 2012)



Editors:

Joni Murti Mulyo Aji
Mustapit

FACULTY OF AGRICULTURE
JEMBER UNIVERSITY
JEMBER, EAST JAVA, INDONESIA



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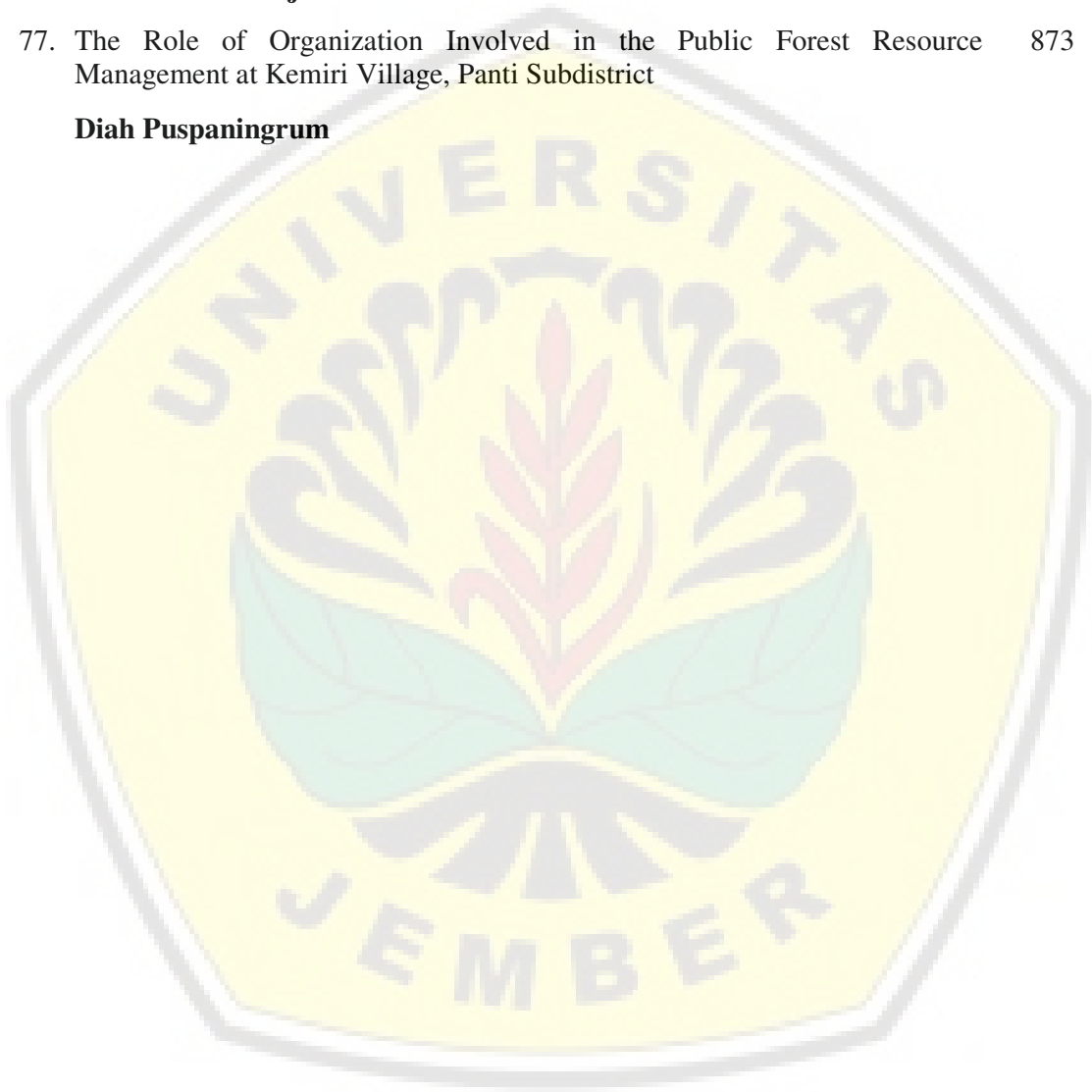
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FOREWORD

Since first introduced by Goldberg and Davis in 1957, agribusiness which is generally defined as the summation of all process involved in the manufacture and distribution of farm inputs; production operations on farm produce; including the storage, processing and distribution of farm commodities and the items made from them; has been growing as a body of knowledge which gradually evolves in both theory and practice.

As a part of the agribusiness system, marketing of food and agricultural products is recognized an important process dealing with handling and distributing the products from farms to forks. Various activities are involved in doing this, such as production planning, growing and harvesting, grading, packing, transport, storage, agro- and food processing, distribution, and sale. These activities are dynamic; they are competitive and involve continuous change and improvement.

Marketing activities cannot take place unless there are information exchanges. The success of marketing is also often heavily dependent upon the economies of scale and availability of suitable finance. Not surprisingly, small holders often face difficulties to get 'right price' in marketing their products as they do not have a proper access to bring their product to the 'right place' or their prospective customers.

Especially nowadays when the structure and governance of agri-food markets are changing rapidly, the smallholders are often left behind and marginalized. Trade liberalization policies in domestic and international markets are key drivers of these changes that lead to globalizing food chains. Stricter standards in term of product quality and market requirements such as supply reliability and scale of delivery bring about new challenges for agri-food producers, particularly for small farmers in developing countries. These daunting challenges have inspired us set up this event.

The International Conference on Agribusiness Marketing (ICAM) aims to explore and map various opportunities for agri-food industry especially in emerging markets within the internationally-integrated and globalized economic environment while identify challenges likely to be faced.

The papers in this proceedings were presented in the ICAM which was held in Jember University, Jember, East Java, Indonesia from 25 to 26 June 2012. It consists of papers from the keynote speakers and more than 70 contributed papers from the conference attendances. Finally, it is expected that all papers and outcomes produced in this conference can contribute, both theoretically and practically, to the future of agribusiness and marketing of agricultural products especially in the developing world.

Evita Soliha Hani
The ICAM Chairperson



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KEYNOTE SPEAKER

JEMBER UNIVERSITY RECTOR'S OPENING SPEECH

For the International Conference on Agribusiness Marketing 2012

Jember, 25 – 26 June 2012

Guests of Honour,

Prof. Dr. Mad Nasir Shamsudin, Prof. Zainal Abidin Mohamed and delegates from Universiti Putra Malaysia,

Dr. Marthin Nanere, from La Trobe University, Australia

Distinguished speakers, Drs. M. Taufik Hidayat and Prof. Dr Rudi Wibowo, MS

Colleagues,

Ladies and gentlemen,

Assalamu'alaikum Wr. Wb.

It is my pleasure to speak to you today on the occasion of this International Conference on Agribusiness Marketing 2012.

First of all, I would like to extend my warmest welcome to all of our eminent speakers and the distinguished participants, especially those who have travelled long distances to be present here today. I would also like to thank the Conference Committee and Faculty of Agriculture for hosting this highly meaningful event here in Jember University.

I believe that this event is highly meaningful as agribusiness marketing is an interesting topic. It consists of two important concepts, i.e., agribusiness and marketing.

Agribusiness which is literally formed by two distinctive words agriculture and business is undoubtedly two important sectors for human beings, as without business in agriculture, it is impossible to feed 7 billion people who live in the world now. That's why this university concerns and commitment to agriculture is high, and the development of agro-industry has been the ultimate goal in our vision. As stated in our statute, the vision of Jember University is to become an (internationally) qualified higher education with environment orientation and ability to develop science, technology, and art for the benefit of humanity, which is more specifically directed to the development of agro-industries.

Marketing, which literally means the process through which goods and services move from producers to the consumers or customers, is undoubtedly important concept as nowadays, it is almost impossible for human being to meet all of their needs without the role of marketing.

As an integrated concept, agribusiness marketing is inevitably important since it is the process by which food and or food products are transferred from farmers, as food growers, to us as food consumers. The process of marketing itself generally makes food or food products become more accessible for us. It consequently often relates to food accessibility and thus food security. Failure in food marketing or marketing systems, nowadays often called as food supply chain management, may create hunger in any part of the world.

Moreover, as mentioned in the introduction of this conference, in the modern and globalised markets, I can see that agribusiness marketing is becoming more and more complex. The success of marketing is also often heavily dependent upon the economies of scale and availability of suitable finance. Supermarket and minimarket chains become increasingly dominant in the food

marketing and distribution. The consequence of this, of course, farmers and small holders often face more problems if they cannot adjust with the situation.

I believe that our eminent speakers will explore and talk more about it, and have some solutions so that farmers and or smallholders can get access to the right market.

Ladies and Gentlemen,

It is my sincere hope that this International Conference on Agribusiness Marketing (ICAM) 2012 will prove to be a useful occasion to better understand agribusiness marketing as well as the emerging concepts of supply chain management; identify the threats and opportunities posed by small holders or farmers particularly in developing countries like Indonesia, evaluate the agribusiness itself as well as physical, social and policy environment surrounding the business in order to give better access and facilitate smallholders' participation in modern and globalised markets. In closing, I would like to once again extend my gratitude to all the participants and I look forward to a most successful and fruitful conference.

Finally,

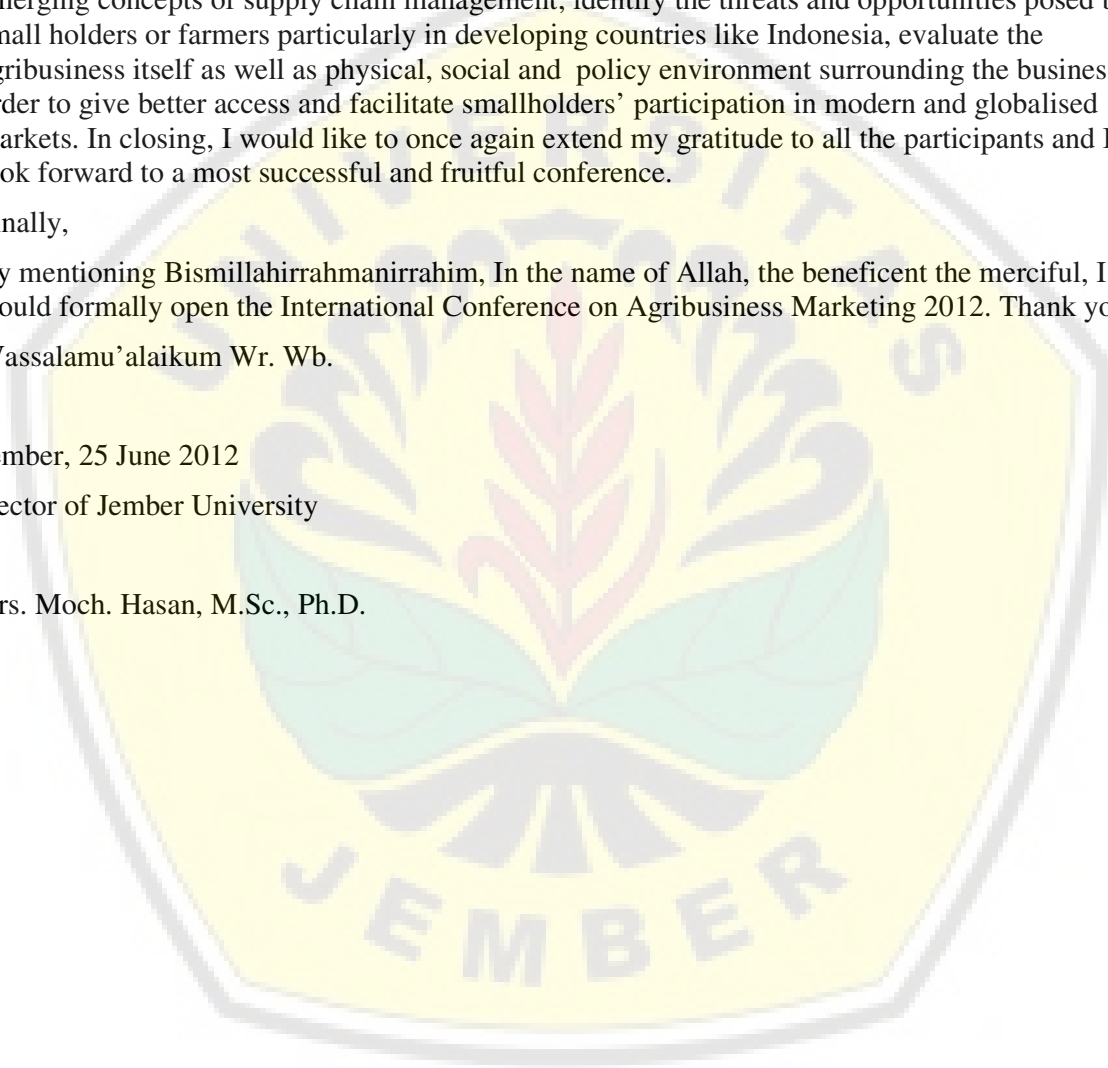
By mentioning Bismillahirrahmanirrahim, In the name of Allah, the beneficent the merciful, I would formally open the International Conference on Agribusiness Marketing 2012. Thank you.

Wassalamu'alaikum Wr. Wb.

Jember, 25 June 2012

Rector of Jember University

Drs. Moch. Hasan, M.Sc., Ph.D.



GAME THEORY ANALYSIS OF PROSPECTS OF FORMAL AND INFORMAL INSTITUTIONS TOBACCO INDUSTRY IN GRESIK REGENCY

Gigih Pratomo¹, Adhitya Wardhono², Ciplis Gema Qo'riah³, Satrio Wicaksono⁴

Abstract

Institution is a rule of the game and organizations that play an important role in regulating the use and allocation of resources in an efficient, equitable and sustainable [1][2][3][9]. Institution will provide an important change in terms of industrial and agricultural sectors in tobacco plants. The research aims to identify prospects existence of formal and informal institutions against the tobacco industry in Gresik. The research data is primary and secondary data. Research sites focused on Gresik. Technical analysis of data is using descriptive analysis and game theory. The results showed that the existence and role of formal and informal institutions will provide a new euphoria in the tobacco industry in Gresik. This is indicated by an effort to increase awareness of the importance of communication between economic actors in the tobacco industry.

Keywords: *-game theory; prospects; institution; industry; tobacco*

Introduction

Institution is rule of the game with an important role in regulating the use and allocation of resources in efficient, equitable and sustainable [3][9]. Furthermore, Williamson (1998) showed differences in definition of institutional justification becomes the New Institutional Economics (NIE) and The Institutional Government. New Institutional Economics (NIE) is a rule of the game which includes policy, justice, contract and property rights. Meanwhile, The Institutional Government is the institution that regulates the institutional market, corporate, and bureaucratic. On the other hand, institutions consist of informal institutions and formal institutions [8]. Formal institutions are institutions that have the rule of law and regulation legality of the government. Informal institutions are institutions that run out of legality formal system and has no legal force. Therefore, the basicly institutional implications will provide an important change in terms of industrial and agricultural sectors in tobacco plants. One of the agriculture and industrial sectors relationship within the framework of the tobacco economy.

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Institutional framework of the industry is a phenomenon preference in the selection of the flow of economic activity in certain industry sectors [13]. Tobacco is a plant that has economic value added in Indonesia [6][7][12][13]. Tobacco is the main raw material for the tobacco industry. This euphoria made tobacco has the potential to be developed extensively because it has economic value to the tobacco industry. Furthermore, tobacco has an important role in the economy in fiscal aspects. Tobacco is a product developed and cultivated plantations in the district of Gresik in addition to sugar cane, cotton, coconut, coffee, cloves, cashew nuts and palm. However, the cultivation of tobacco farming has many problems both in the process of industrialization of production and processing in one of the aspects of the institutional relationship between the agricultural sector and tobacco industry sectors. Therefore, based on the background of this research aims to identify the prospects for the existence of formal and informal institutions against the tobacco industry in Gresik regency.

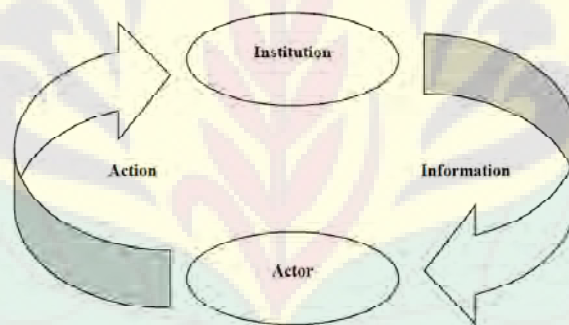
Theoretical Overview

Institution is a rule of the game and organizations that play an important role in regulating the use and allocation of resources in an efficient, equitable and sustainable [1][2][3][9]. Another definition states that the institution is an organized set of relationships in the community who knew the right, the influence of the rights of others, privilege and social responsibility on its right [11]. Therefore, institutions can lower transaction costs is the key to the success of economic indicators [2]. Institutional developments related to the period of institutional change. Efficient institutional changes that will impact positively on economic growth. Meanwhile, an inefficient institutional change will negatively affect economic growth.

Among other institutional characteristics from Hodgson (1998) is 1) institutional actors enter interaction (interaction of agents) in the presence of feedback (feedbacks), 2) institutional characteristics has units, concepts and routines in general; 3) Institutional sustainability and have expectations of the concept; 4) Institutions are not immortal, but has institutional survival (durable), coercion (self-enforcing), and quality; 5) include institutional values and processes of normative evaluation, and 6) institutional legitimacy to the process of moral .

In the study of theory, New Institutional Economics paradigm (NIE) is one of the evolutionary theory of economics [4]. In this theory, individuals are key or important

actors in economic transactions. Individuals have a preference about the thoughts that will be applied in the economy. Preferences can be changed to change according to the need that must be met in his life. Individuals have to be applied to individual preferences through their behavior in the economy. If the individual is a group, it will generate an institutional form that reflects the preferences of the individual aggregates. Institutions can be used to obtain information about the individual needs of the market. Instead, the information is also used by individuals to choose their preferences in behavior in the market. Therefore, economic theory assumes that preferences can be used as a consideration for determining the function of individual preferences. The mechanism is based on the individual is the core of economic transactions, behavior, information, and institutional information in a market turnaround. Figure 1 shows the velocity of information and institutional role.



Source: adapted from Hodgson, 1998

Figure 1. Turnover of Information and Role of Institutional

Furthermore, in the New Institutional Economics (NIE), there are two aspects that influence the development of institutions such as the relative price and technological innovation [2]. Relative prices can affect the rules of agreement on economic transactions. Influence will benefit one or both of the economic actors who perform economic transactions. Meanwhile, the use of technological innovation will affect the transaction costs caused by the lack of information of economic actors.

Research Method

This study is a type of research exploratory. Exploratory research is research that aims to develop knowledge or suspicion and identification of situations that are still new research and to provide direction for further research. The study focused on Gresik. It used

primary data and secondary data. Primary data as a source of information to absorb information about the prospects for formal and informal institutional tobacco industry in Gresik. Technical analysis of the data using descriptive analysis and game theory.

In the method of game theory, the interaction between formal institutions and informal institutions in the tobacco industry in Gresik is stacking the goal to shows institutional prospects in supporting the economic activity of tobacco in Gresik through alternative strategies and policies for each hierarchy institutions. Game theory model in this study are follows:

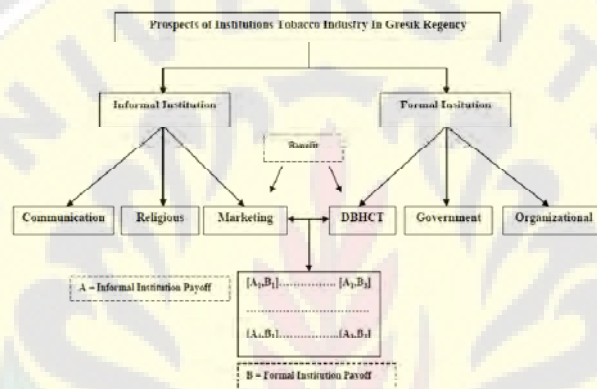


Figure 2. Hierarchy of Interaction of Formal and Informal Institutions

Based on the picture, it shows that the first hierarchy of game theory there are two institutional patterns in the tobacco industry in Gresik, namely institutional informal and formal institutions. Formal institutions are institutions that have the rule of law and regulation has legality of the government. Informal institutions are institutions that run out of legality formal system and has no legal force. Furthermore, in the second hierarchy are the benefits to be provided by each institution on the tobacco industry that can be used to determine the institutional prospects. Instruments on the second level is the informal institutional communication between economic actors (Communication), the closeness of the social relations of religious (Religious), and ease of marketing tobacco products in the market (Marketing) and for formal institutions are beneficiaries and allocation of tobacco excise revenue sharing (DBHCT), guidance and assistance from local government (Government), and the force of law on the organization structure of the tobacco business (organizational).

Result

Existence of tobacco in Gresik tend to fluctuate over the period 2005-2010 in growth. During the 2005-2009 peridoe land and tobacco production in Gresik tends to decrease, but in 2010 there is a rise in land area due to the attention of local governments in the development of tobacco up to 25 hectare (BPS, 2011). According to the keyinforman, tobacco is a plant that has a high economic potential if developed to increasing its contribution to the regional economy. Furthermore, tobacco plants that tend to Gresik marginal compared to other regions in East Java can provide a positive impact on governance and development if appropriately and effectively in the institutional realm of economic actors. This course gives an implication in an institutional setting effective and efficient in dealing with the economic flow that links tobacco between agriculture and industry sectors in Gresik.

Institutional tobacco industry in Gresik has the majority of informal institutional forms related to the farmers, intermediaries and the cigarette industry. This condition is caused by fluctuations and extensive cultivation of tobacco plantations in Gresik have focused on Balongpanggang sub-district. Informal institutions are strengthened because reluctance of economic players in the tobacco sector who do not want the administrative and bureaucratic processes that tend to complicated. Informal institutions between the tobacco industry in Gresik regency established for culture and cultural factors as well as trust between communities. Therefore, this phenomenon shows that the existence of informal institutions is far from clear legality and structure among economic agents formed by the communication between economic actors, religious ties are close and easy access to tobacco markets because farmers simply act as a price taker. However, informal institutional weaknesses are consequences of tobacco farmers who have low bargaining power than the cigarette industry and trade intermediaries. Directly, farmers in the future will act as a price taker in the absence of determine the ability for the tobacco crop prices in the market.

On the other hand, formal institutions are also formed on an ongoing basis by the local government to establish cooperation with economic actors within socialize the benefits of formal institutions in economic activity of tobacco. According to the keyinforman, benefits will be provided by formal institutions is the government's attention through the cultivation of tobacco and organizational structures that have a legality. This benefit is achieved by giving more attention to the importance of educating and fostering

an organizational structure and legal rules in the flow of production and distribution of tobacco in Gresik regency. This policy is implemented by enhancement of environmental quality tobacco plantations to maintain the continuity of productive land in order to produce optimum quality raw materials for the cigarette industry.

The phenomenon of informal and formal institutional fabric of the agricultural sector and the tobacco industry provides a trade off in the development of tobacco in the future between cultures and economic benefits. This is shown by the pay-off interactions between the benefits of each institution. If economic agents choose to benefit from formal institutions DBHCT the informal institutions will offer the prospect of the benefits of religious closeness with pay-off value of 0.229. Whereas, if the benefits offered by formal institutions and programs is a concern of local governments to tobacco cultivation offers the benefits of the informal institutional marketing of tobacco products with the convenience of pay-off value of 0.038. Furthermore, if formal organizational structure legally offer institutional, informal dining will offer the benefits of the fabric of close communication between economic actors with the pay-off value of 0.154.

Table 1. Pay-Off Benefits Of Informal And Formal Institutions Tobacco In Gresik Regency

| Prospect Institution | | Formal Institution Pay-off | | |
|------------------------------|---------------|----------------------------|------------|----------------|
| | | DBHCT | Government | Organizational |
| Informal Institution Pay-off | Communication | 0.045 | 0.120 | 0.162 |
| | | 0.202 | 0.030 | 0.154 |
| | Religious | 0.142 | 0.129 | 0.121 |
| | | 0.229 | 0.035 | 0.105 |
| | Marketing | 0.056 | 0.259 | 0.224 |
| | | 0.187 | 0.038 | 0.143 |

Sources: primary data, processed 2012

Whereas, if economic agents choose informal institutions as institutional has a positive outlook for the tobacco industry in close communication with the benefit of the formal institutions will offer the benefits of providing benefits to the organization as a legal structure to the value of pay-off of 0.162. Furthermore, where the informal institution offering the benefits of religious closeness of informal institutions will offer DBHCT with pay-off value of 0.142. Whereas, if the institution offers the benefits of ease of informal marketing of tobacco products will respond to the formal institutions by offering benefit

care and local government programs for the cultivation of tobacco to the value of pay-off of 0.259.

Conclusion

The results showed that the existence and role of formal and informal institutions that have the prospect of potential in providing a new euphoria in relation agricultural and tobacco industries in Gresik. Prospects are based on the interaction of the benefits offered by both institutions in providing informal communication between economic actors, the closeness of the social relations of religious and ease of marketing tobacco products in the market and use of both formal institutions and the allocation of tobacco excise revenue sharing (DBHCT), Development and aid of local government, and legal power over the tobacco business organizational structure so as to avoid trade-off negative impact to the performance of the tobacco industry in Gresik.

Recommendation

The government to increase awareness of the importance of communication between economic actors in the tobacco industry through both informal and formal institutions to absorb market information. Given the alignment between the performance of formal institutions and informal institutions in the future the economic prospects of rolling tobacco will be sustainable in creating a multiplier effect in the economy.

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