

Risk orientation of the farmers and their reactions towards contract farming

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ARTICLE INFO :

Received : 14.07.2012
Revised : 08.10.2012
Accepted : 16.11.2012

KEY WORDS :

Association, Contract farming, Farmers' reactions, Likert scale, Risk orientation

HOW TO CITE THIS ARTICLE :

Rampal, Vipin Kumar (2012). Risk orientation of the farmers and their reactions towards contract farming, *Adv. Res. J. Soc. Sci.*, 3 (2) : 216 - 219.

ABSTRACT

Farmers entering new contract farming ventures should be prepared to balance the prospect of higher returns with the possibility of greater risk. In present study, the reaction of the farmers employed the favourable / unfavourable value attached to different aspects of agreement under contract farming and risk orientation was measured as the degree to which an individual was oriented towards risk and uncertainty and had the courage to face the problems in contract farming. The Likert method or method of summated ratings of scale construction was adopted for construction of risk orientation scale. The farmers complained about grading based pricing used by the agencies. Majority of the farmers agreed with inputs provided and their quantity. Majority of them disagreed with payment for purchase at right time. There was mixed reactions about technical know-how and extension services. Majority of them were having average and above average risk orientation score. The farmers' reactions towards inputs provided, marketing support, extension services and payment of the produce were associated with their risk orientation scores.

INTRODUCTION

Contract farming is defined as a system for the production and supply of agricultural / horticultural produces under forward contracts between producers/suppliers and buyers. The essence of such arrangement is the commitment of the producer / seller to provide an agricultural commodity of a certain type at a predetermined time and price as for the quantity required by a known and committed buyer. The contract farming stands on the commitment from both the parties involved, wherein the farmer provides a specific quantity and quality of the commodity and the purchaser, on behalf of the company, supports the farmer's production and commits to buy the commodity produced. To give boost to the diversification of agriculture in Punjab, the Government of Punjab has also started contract farming scheme from *Rabi* season 2002-2003 through Punjab Agro Foodgrains Corporation Limited. Under this scheme, the area is being shifted from rice and wheat to other high valued crops like winter maize, sarson (hyola), sunflower, mentha, basmati, etc. Farmers entering new contract farming ventures should be prepared to balance the prospect of higher returns

with the possibility of greater risk. Such risk is more likely, when agri-business venture is introducing a new crop to the area. There may be production risks particularly where, prior field tests are inadequate, resulting in lower than expected yields for the farmers. Market risks may occur, when the company's forecasts of market size or price levels are not accurate. Keeping in view the above facts, the present study was under taken with following specific objectives to find out the risk orientation of the contract farmers, to study the farmers' reactions regarding different aspects of contract farming, to study the relationship between the farmers' reactions and their risk orientation scores.

METHODS

The reactions of farmers employed the favourable/unfavourable value attached to different aspects of agreement under contract farming. Farmers' reactions were measured in terms of agreement, partial agreement and disagreement, and the scores of 2, 1 and 0 were assigned, respectively. The data were collected through personal interview method from selected farmers. Risk orientation was understood as the degree to which

an individual was oriented towards risk and uncertainty and had courage to face the problems in contract farming. Likert method (1969) of scale construction was used to measure the risk orientation of the farmer and it was consisted of the following steps:

Selection of items:

After reviewing relevant literature and discussion with members of the advisory committee, large numbers of statements about risk orientation towards contract farming were selected. The statements thus, collected were carefully examined in the light of the fourteen criteria suggested by Edwards (1969) for screening the items and the statements were modified and rewritten. As a result of such screening, only sixteen statements were retained.

As a base to reject statements, the methods of summated ratings and item analysis were used. For item analysis, the farmers were asked to give their reaction to each statement on the five rating points namely: Strongly agree (SA), Agree (A), Undecided (U), Disagree (D), Strongly disagree (SD).

The score for each individual on the scale was computed by summing the weight of the individual responses. The frequency distribution of scores based upon the responses to all statements was obtained. Therefore, 25 per cent of the respondents with highest total scores and also 25 per cent of the respondents with lowest total scores were taken assuming that these two groups would provide criterion groups to evaluate the individual statements.

Selection of final statements:

As a crude and approximate rule of thumb, we might regard any t-value equal to or greater than 1.75 as indicating that the average response of the high and low groups to a statement differed significantly and can be included in the scale for measuring risk orientation towards contract farming.

Reliability of scale:

It was tested by using split-half (odd-even) method. The two sets of halves of scale items were used for working out the reliability of scale. The Pearson Product Moment Coefficient of correlation was determined by using the Spearman Brown formula and the reliability coefficient was 0.87.

Validity of scale:

The empirical type of validity that Guilford (1954) called the intrinsic validity was determined by taking the square root of reliability coefficient and it was 0.93.

OBSERVATIONS AND ANALYSIS

The findings of the present study as well as relevant discussion have been summarized under following heads:

Farmers' reactions regarding different aspects of contract agreement:

The information about this has been given in Table 1. The majority of the respondents (71.50 per cent) agreed about the quantity of seeds provided by contracting agencies whereas, 25.00 and 3.50 per cent of the respondents partially agreed and disagreed about quantity of seeds, respectively.

The similar results were seen in case of quality of seeds and quality of fertilizers and 83.50 per cent of respondents agreed about availability of seeds at right time and 16.50 per cent of them partially agreed on this aspect. About half of the respondents were having agreement about quality of pesticides but 28.50 per cent and 15.50 per cent of respondents had partial agreement and disagreement, respectively about quality of pesticides.

It is apparent from the data in Table 1 that 53.50 per cent of respondents showed agreement with timeliness of extension services given by contracting agencies and 32.50 per cent and 14.00 per cent of them had partial agreement and disagreement.

Sr. No.	Aspects	Farmers reactions		
		Agree	Agree partially	Disagree
1.	Inputs provided			
	Quantity of seeds	143 (71.50)	50 (25.00)	7 (3.50)
	Quality of seeds	125 (62.50)	55 (27.50)	20 (10.00)
	Availability of seeds at right time	167 (83.50)	33 (16.50)	--
	Quality of fertilizers	158 (79.00)	36 (18.00)	6 (3.00)
	Quality of pesticides	112 (56.00)	57 (28.50)	31 (15.50)
2.	Extension services	107 (53.5)	65 (32.50)	28 (14.00)
3.	Provision of credit	--	--	200 (100.00)
4.	Availability of technical know how	85 (42.50)	69 (34.50)	46 (23.00)
5.	Marketing support	40 (20.00)	96 (48.00)	64 (32.00)
6.	Payments for produce without unnecessary delay	2 (1.00)	38 (19.00)	160 (80.00)

Figures in parentheses indicate percentages

The data in Table 1 also revealed that all the respondents reported disagreement with credit provision and 42.50 per cent of them were agreed with technical know-how provided by contract agencies. 34.50 and 23.00 per cent of respondents had partial agreement and disagreement with technical know-how, respectively. The partial agreement and disagreement with marketing support was indicated by 48.00 and 32.00 per cent of the respondents, respectively. The respondents complained about the grading based pricing used by the agencies. Majority of the respondents (80.00 per cent) had disagreement with payments for purchase whereas, 19.00 per cent of them partially agreed with payment system and only 1.00 per cent of respondents agreed with this. Final buyers made the payments of produce to the contracting agencies, the agencies to PAFC, PAFC to DM (District Manager) at each district and then they issued cheques to the farmers. Obviously, it was time-consuming process and delaying the payment to the farmers. The findings of study are supported by Chawla (2002).

Risk orientation of the farmers:

The attitude of the farmers towards risk orientation items are given in Table 2. A close look at the data show that 64.50 per cent of the respondents agreed that knowing the chances of success are high, one should take risk.

About 43.50 per cent of the respondents agreed that one will continue contract farming even if it is risky. One should take decision of starting new venture by keeping in view the past experience was agreed by 69.00 per cent of the respondents. Forty eight per cent of the respondents agreed that in order to

excel, it is necessary to take risk. A farmer who is willing to take greater risk than the average farmers usually does better financially was agreed by 35.00 per cent. Twenty eight per cent of the respondents were disagreed that in risky situation, one learns a great about the new practice. About 34.50 per cent and 42.50 per cent of the respondents agreed that when it comes to take chance, one would rather safe than sorry and there is only wastage of time and money to start new venture, respectively.

Risk orientation of the farmers:

Data for risk orientation of the respondents has been given in Table 3. A perusal of the data in table indicates that in the area of risk orientation, majority of the respondents (68.00 per cent) placed in above average while twenty six and six per cent of them placed in below average and average scores related to risk orientation, respectively.

This means that about 74.00 per cent of the respondents had high-risk orientation and had courage to face the problems in contract farming.

Association between farmers' reactions and their risk orientation scores:

Data presented in Table 4 indicate the farmers' reactions towards extension services and payment for the produce associated with their risk orientation scores. The farmers' reactions towards inputs provided and marketing support were highly associated with risk orientation score.

But, farmers' reactions towards technical know-how were not associated with their risk orientation scores.

Sr. No.	Items	SA	A	N	D	SD
		f	f	f	f	f
1.	Knowing the chances of success are high, one should take risk.	20 (10.00)	129 (64.50)	33 (16.50)	16 (8.00)	2 (1.00)
2.	One will continue contract farming even if it is risky.	23 (11.50)	87 (43.50)	39 (19.50)	33 (16.50)	18 (9.00)
3.	One should take decision of starting new venture by keeping in view the past experience.	21 (10.50)	138 (69.00)	33 (16.50)	6 (3.00)	2 (1.00)
4.	In order to excel, it is necessary to take risk.	23 (11.50)	97 (48.50)	51 (25.50)	16 (8.00)	13 (6.50)
5.	A farmer who is willing to take greater risk than the average farmers usually does better financially.	15 (7.50)	70 (35.00)	34 (17.00)	52 (26.00)	29 (14.50)
6.	In risky situation, one learns a great about the new practice.	13 (6.50)	55 (27.50)	46 (23.00)	56 (28.00)	30 (15.00)
7.	When it comes to take chance, one would rather safe than sorry.	18 (9.00)	69 (34.50)	30 (15.00)	61 (30.50)	22 (11.00)
8.	There is only wastage of time and money to start new venture.	9 (4.50)	85 (42.50)	36 (18.00)	57 (28.50)	13 (6.50)

Attributes	Scores	Frequency	Percentage
Risk orientation	8 to below 24	52	26.00
	24 (Average)	12	6.00
	Above 24 to 40	136	68.00

Table 4 : Association between the farmers' reactions towards various aspects of agreement and risk orientation scores					
Aspects	Farmer's Reaction			Total	X ² value and significance level
	Agree	Partial- Agree	Disagree		
Inputs					
Score below average	30	14	8	52	10.639**
Average score	6	4	2	12	
Score above average	105	28	3	136	
Total	141	46	13	200	
Extension services					
Score below average	20	21	11	52	6.883*
Average score	7	4	1	12	
Score above average	80	40	16	136	
Total	107	65	28	200	
Technical know-how					
Score below average	29	13	10	52	5.184
Average score	5	3	4	12	
Score above average	51	53	32	136	
Total	85	69	46	200	
Marketing support					
Score below average	8	12	32	52	29.002**
Average score	6	4	2	12	
Score above average	26	80	30	136	
Total	40	96	64	200	
Payments for produce					
Score below average	0	10	42	52	5.520*
Average score	1	8	3	12	
Score above average	1	20	115	136	
Total	2	38	160	200	

* and ** indicate significance of values at P=0.05 and 0.01, respectively

Conclusion:

It was found that the majority of the respondents were placed in average and above average risk orientation scores. This means that they had the ability to take risk. They agreed with quantity of the seeds and fertilizers. There was mixed reactions regarding quality of the seeds, quality of the pesticides and availability of technical know-how. Majority of them disagreed with marketing support and payment for produce in time. The farmers' reactions towards inputs provided, extension services, marketing support and payment for produce were associated with their risk orientation scores.

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