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Patterns and Trust Formed on the Partnership Contract between Sugar Factory and Cane Farmers

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Abstract

Partnership between Kebon Agung Sugar Factory and cane farmers started since Kebon Agung Sugar Factory experienced shortages of raw materials and sugar mill process under its capacity. On the other hand, cane farmers do not have market certainty and further process is needed to make sugar cane more valuable. The purposes of this research are to examine pattern applied on partnership contract between Kebon Agung Sugar Factory and cane farmers, as well as to examine trust formed between Kebon Agung Sugar Factory and cane farmers. Analysis used in this research is qualitative analysis using symbolic interaction approach. The result shows that pattern used by Kebon Agung Sugar Factory and cane farmers is core-plasma pattern. According to the findings, Kebon Agung Sugar Factory act as “core” that has obligations to give various incentives and monitoring such as loans, means of production, counseling and assistance. Furthermore, “plasma”, that is farmers, cultivate their fields as directed by and hand it to the sugar factory or the “core” based on agreement made before.. Creating an ideal partnership contract is not only levied to farmers and factory, government’s role is also needed. Therefore, government’s intervention in making policies, strengthen the institution in local level to achieve ideal partnership contract is very crucial.

Key-words: Core-Plasma, Sugar Factory, Cane Farmers, Symbolic Interaction Approach.

1. Introduction

Sugar is one of strategic commodities in Indonesian economy. Viewed from the consumption side, sugar is one of the basic needs for Indonesian society. On the last decade, according to the Research and Development Agency, Department of Agriculture, sugar industry in Indonesia was facing serious problems, both internally and externally. One of the indicators was the tendency of increasing impor volume. A classic problems in farm level according to the Research and Development Agency, Department of Agriculture, would be because of the low sugar productivity caused by mismatch of land, poor cultivation techniques, credit/capital difficulty, government policy bias, and price instability. Capital constraint faced by farmers and credit difficulty caused local sugar

cane farmers were not optimum. While sugar factory, primarily in Java Island were generally old. In addition, the limited availability of raw materials caused sugar factory often facing difficulties in achieving minimum capacity, also to solve inefficiency problem in farm level and factory. Inefficiency problem and another problems also caused a lot of sugar factory could not survive. Kebon Agung Sugar Factory as one of sugar producers in Java Island, had two factories namely Kebon Agung Sugar Factory in Malang and Trangkil Sugar Factory in Eastern Java. Kebon Agung Sugar Factory and the surrounding sugar cane farmers did a partnership because of the small proportion of the land itself to the sugar cane mass farms became one of the driving factors. Because to meet the need of raw material, sugar factory was very dependent on cultivated sugar cane by farmers of approximately 95%, and partly from sugar factory's farm of approximately 5%. This partnership model could be said fairly successful. This success was important because most of the sugar factories in Java Island not done this partnership model properly so that both farmers and sugar factory could not be able to improve their efficiency.

2. Theoretical Framework

2.1. Theory of Contract and Assymmetric Information

Contract generally describe an agreement between one party to do an action that had an economic value to another party, certainly with a consequence of reciprocal action or payment. In fact, contract did not always accomplished because of two reason (Klein, 1980:356-358; in Yustika, 2008:105). Firstly, uncertainty caused an opportunity for contingencies, led to the emergence of cost of identifying in order to respond all of possible uncertainty. Secondly, particular contractual performance, for example identifying amount of energy needed by labour to do some complex task, possibly needed a high cost to measure. Therefore, a violation of contract was often difficult for a third party (the court) to provide evidence as a base of judgment. The emergence of uncertainty could actually be traced from the reality of the existence of asymmetric information in the economic activity. Technically, asymmetric information was a condition where unequal information or unequal knowledge was faced by parties to do a transaction in the market. As an example, buyers and callers had unequal information about price, quality, and another aspect about goods or services being sold. (McConnel and Brue 2005:572, in Yustika 2008:105). This was where complete contract was needed so that asymmetric information could be reduced.

George A. Akerlof's, which was regarded as a pioneer of the theory of asymmetric information, through his monumental work, namely *The Market of "Lemons": Quality Uncertainty and the Market Mechanism* (1970), argued that the asymmetric information that occurs between transactors could be reduced through intermediary market institutions, which was often referred to as counteracting institutions. Good example to demonstrate institutional mentioned before was guarantees for goods. Guarantees give buyers sufficient time to find same informations regarding the goods as well as knowledge had by the sellers. Beside guarantees, another institutional instrument was brand-names, chains, and franchise as guarantee mechanism for buyers, at least regarding the quality of the product (Auronen, 2003:9; in Yustika, 2008:106).

2.3. Contract Enforcement Mechanism and Extralegal Instrument

Different types of contract factor (Menard, 2000:236; in Yustika, 2008:110). First, the duration of contract. Almost all empirical studies showed that the duration of contract was associated with the attribute of transaction. Therefore, the duration of contract also describe signal commitment of partners. Second, degree of completeness, include price, quality, delay, and penalty. Few studies show that degree of contract completeness increase along asset specification and decrease along uncertainty. Third, contract generally involves incentives. Such mechanisms include a fixed rate system (piece-rate systems), wages based on workhours, distribution of works to the workers, the return on assets paid to the landlord, and the rent shared among the partners joined the project.

Forth, enforcement procedurs applied. Contract was associated with partners for mutual advantage, but at the same time, contract also had the risk of loss (disadvantage) through opportunism: either due to incomplete contracts or different implementation with the situation at the time of negotiations, or could be due to both. The main issue was to find optimum agreement, where the

contract was designed in such a manner so that the actors (agents) had a strong incentive to comply with the contract that had been agreed upon. Such contracts should have been able to self-enforce, in the sense that its implementation depended on a built-in mechanism.

2.4. Rational Choice and Communicative Action

At least there were two approaches in the theory of rational choice, that were strong approach and weak approach. [Miller, 1992:24; in Yustika, 2008:120]. Strong approach view social barrier and institution as a product from rational action itself being the cause of rational choice analysis. Meanwhile, weak approach place social barrier and institution as a given framework due to rational actors' effort to maximize profit or minimize cost. Focusing on above description, could be stated simply that social barriers and institution were both exist in strong and weak approach. However in the strong approach presupposed social barriers and institutional as a trigger for the emergence of rational action. Conversely, the weak approach views social barriers and institutional birth due to the battle between the rational individuals who seek to maximize profits and minimize costs. Obviously, the way out to solve the collective action problem of the two versions of rational choice theory was different, depending on which approach exist.

If the strong approach agreed as a trigger for rational action, at least three internal solutions could be recommended (Miller 1992:25). First, needs of strong internal solution (with assumption no change in believe and preference) regarding free riders problem. DeNardo (1985 in Yustika, 2008:120) identified two possibilities: (i) individual was overestimate about the importance of their participation in collective action, such as expectation that their action was advantageous; and (ii) the sensitivity of satisfaction and the opportunity to meet with people, made participation had a positive impact on the outcome of the action.

Second, ignoring the importance of political issues in motivating people to participate. As an illustration, if the demonstration be carried out, then no need to discuss the issue of ideology or political agenda grandiloquently; just provided the protesters a cup of coffee or food that makes the protesters want to be involved in the protest. Third, Taylor (1987 in Yustika, 2008:121) and Elster (1989 in Yustika, 2008:121) argued about the need to establish mutual conditional cooperation. This postulate was based on the well-established theory of "prisoner's dilemma".

2.5. Trust Based Partnership

Partnership relies on trust. With its characteristics, among others: (1) equality and more ramps organization: a flexible hierarchy of actualization (where power was guided by values such as caring and caretaking), (3) nature-based spirituality; (4) a low level of chaos that was formed in the system, and (5) gender equality and justice.

In the Decree of The Minister of Agriculture No. 940/Kpts/OT. 210/10/1997 regarding the guidelines of agricultural business partnership, business partnership patterns were as follows:

a) Core-Plasma Partnership

In this model, large entrepreneurs, manufacturing industry (eg, PT Indofood Fritolay Makmur, Kebun Agung Sugar Factory, etc.) act as a corporate partner / core in partnership with agricultural producers (farmers partners / plasma). Partnership conducted with farmer groups, so that production could be more organized in one stretch with a certain minimum scale joint venture. Corporate partner / core obliged, among others in: (a) the provision and preparation of land, (b) providing the means of production, (c) providing technical guidance patterns and post-harvest cultivation, (d) financing such as land preparation, harvesting, (e) other aid, such as increased efficiency and business productivity. Meanwhile, farmers cultivate their land as directed by the core or corporate partner and submit the results to the core according to agreement.

b) Contract Farming Model

Agribusiness on contract farming activity appears to be an attractive alternative for manufacturing companies. Contract farming was a way to organize agricultural production where small farmers or "outgrowers", awarded a contract to provide agricultural products for a core company in accordance with the terms specified in an agreement. Core company bought these results could

provide technical assistance, managerial, credit facilities and accommodate the production and did the processing and marketing (Kirk, 1987 in White: 46 - 4, 1998). Contract farming could be divided into three types according to the extent to which the "core" involve himself in the decisions at the level of production of their "satellite" farmers (White, 1998): (1) marketing contracts. In this type of contract, included provisions on how to determine the type or quantity of agricultural products to be delivered, but rarely mentioned the activities or special methods which should be followed in the production process, nor did it require the core to provide specific inputs. (2) production contract, which an agreement between farmers and companies that determine the type and quantity of agricultural products to be produced, and also could set a variety of seed and activities in the production process, as well as inputs or technical assistance which should be provided by the contract giver. (3) vertical integration, in which all stages of production were held within the company, while the market did not play a role in coordinating the various stages of production.

c) Sub Contract Model

Subcontracting partnership could be defined as a partnership between groups and companies to produce the components required by the company as part of its production partners. This pattern was often found in industrial products, such as the automotive industry in Japan. In this model, small businesses produce components or services that were part of the production of medium or large enterprises. This partnership model resembles a contract farming partnership but on this pattern small business group do not engage in contract directly with the manufacturing company (processor) but through an agent or merchant.

As an effort of medium or large business enterprises to further improve and empower small business enterprises, medium or large business enterprises enhance the technical and management skills of the small business workers, and provide assurances that the market could ensure its survival, innovation and entrepreneurship of small business. This model could be found in chili procurement between farmers and processing industry or the supermarket that was mediated by an agent or a trader of agricultural products.

d) General Trade Partnership

General trading partnership, was a partnership relationship between farmer groups (small business) with the company (medium or large business), where the partners supply its company partners' needs in accordance with specified requirements. In this model, small business products were sold by medium or large business' markets, medium and large business enterprises' needs could also supplied by small business enterprises.

e) Partnership Agency

In this model, the group partner (small business enterprises) was given the exclusive right to market the goods and services of the company's business partners (medium or large business enterprises). The advantage of this partnership is a relationship in the form of profits from the sale, plus commission/fee provided by partner companies. This model was found in the distribution of the means of production or distribution. And production facilities merchants were usually act as an agent and usually only sell the type of seed, fertilizer, from the production of a particular company or a particular brand.

f) Agribusiness Operational Cooperation Partnership Pattern

In this model, the partners provide land, facilities, and workwrs. While the companies provide the cost of capital and means to cultivate an agricultural commodity. The companies could act as a core company or as a counsellor company. This company carrying out land clearing, cultivation and manage its own processing unit. The core company als carrying out training in technology, the means of production, capital or credit, processing, accomodating and marketing the output of production from its partner.

2.6. Social Capital and Trust

With the economic capital as well as human capital a person /company could do economic activities without having affected by the social structure. This was why Coleman (1988:98) defined social capital by its function. According to Coleman (1988:98), social capital was not a single entity, but the plural entity that contains two elements: (i) social capital include some aspect of social structure, and (ii) social capital facilitates certain actions of actors (actor), both individuals and companies within the structure. From this perspective, social capital was productive as well, which makes the achievement of certain objectives may not be achieved if it did not exist.

With these descriptions, through social capital, actors could achieve direct access to economic resources (subsidized loans, investment advice, a protected market), they could increase the cultural capital through contact with experts or individuals who inherent in the cultural capital, or - alternatively - they could be affiliated with an institution that discusses the values of trusted / valued credentials (institutionalized cultural capital) [Portes, 1998:3-4].

3. Methods

3.1. Research Approach

This model used qualitative research. Qualitative research could be defined as research that produces descriptive data about the words spoken and written, and the observable behavior of the people studied (Taylor and Bogdan, 1984 in Hendrarso, 2007:166). So the researchers believe that qualitative research could be used to fully understand the social life of how trust could be built on a partnership contract between Kebon Agung Sugar Factory and farmers, also what were the social elements exist in this partnership and the trust between Kebon Agung Sugar Factory and its partner farmers.

3.2. Unit of Analysis

By considering the real conditions, the unit of analysis in this study was the interaction between individual on a partnership contract conducted by farmers and Kebun Agung Sugar Factory, as well as perceptions arising between farmers and Kebon Agung Sugar Factory when engaged in such interactions. The interactions could be used as a basis for analyzing the issues that had been disclosed. Therefore, the approach in this study was a micro approach and a human point of view tend to be rather *homoeconomicus* than *homosociologus*; therefore this study did not use a deductive approach, which means determining in advance the standard theory as a basis for implementation and analysis of research. This was intended to avoid concerns that the important things of the complexity of the reality on the ground may be ignored.

3.3. Data Collection Methods

The data in this study were collected using several methods: First, was in-depth and unstructured (no use of questionnaires) interviews of the informants. Second, field observations, regarding facts that seen and heard. Various kinds of phrase or question that came out in everyday conversation also include a part of reality that could be observed; or observatons through the sense of hearing. (Bungin, 2010:66). Third, technical documentation undertaken to obtain evidence of research conducted at Kebon Agung Sugar Factory Malang. Documentation reported in the form of a public document file (sourced from Administration Beareau), form a partnership contract, collection of interviews and photos record daily activities in the partnership contracts between Kebun Agung Sugar Factory and farmers.

3.4. Data Analysis Techniques

Data analysis in qualitative research, conducted at the time when data collection took place, and after completion of data collection in a given period. At the time of interview, the researcher had conducted an analysis of the interviewee's answers. If the answer was not satisfactory, the researchers continue the question again, to some extent, until the data obtained were considered credible.

This study used a qualitative analysis of symbolic interaction, because the symbolic interaction perspective tries to understand human behavior from the subject's point of view. Mulyana (2006:71)

explains in detail how to conduct research analysis using the underlying premises of symbolic interactionism. First, the individual responds to a symbolic situation. They respond to the environment, including physical objects and social objects (human behavior) based on the meaning contained in the components of the environment for them.

Second, the meaning was the product of social interaction. Therefore, the meaning was not inherent in the object, but rather negotiated through the use of language. Negotiation was possible because humans were able to name all things, not just physical objects, actions or events (even without the presence of physical objects, actions or events), but also an abstract ideas. However, the name or symbol used to mark objects, actions, events or ideas that were arbiters (random). That was, anything could be a symbol and therefore there was no logical connection between the name or symbol of the object to which it refers to, although it was sometimes difficult to separate the two.

Third, the meaning interpreted by individuals may change from time to time, in line with changes in the situation found in social interaction. Changes in interpretation were possible because the individual could perform the mental process, which communicates with itself. People imagine or plan what they do. In this process, individuals anticipate the reactions of others, looking for alternatives to words or actions that he do. Individuals imagine how others respond to their words or actions.

4. Core-Plasma Pattern On Contract Partnership Between Kebon Agung Sugar Factory And Farmers

Partnership between Kebon Agung Sugar Factory with sugarcane farmers goes back to the sugar mill cane supply shortage of raw materials and grinding the cane under the milling capacity, while the farmers did not have a guaranteed market and needed further processing to make the cane more valuable. Thus, there was a relationship of mutual need between sugar factory and sugarcane farmers.

Thus, referring to the Decree of The Minister of Agriculture No. 940/Kpts/OT.210/10/1997 regarding the guidelines of agricultural business partnership, Kebon Agung Sugar Factory Malang and sugarcane farmers was in the form of the core-plasma pattern. Because this research found that Kebon Agung Sugar Factory act as corporate partner /core in a partnership with cane farmers (farmer partners / plasma). This partnership also conducted with farmer groups, so that production could be more organized in one stretch with a certain minimum scale joint venture. Corporate partner/ core obliged, among others in: (a) the provision and preparation of land, (b) providing the means of production, (c) providing technical guidance patterns and post-harvest cultivation, (d) financing such as land preparation, harvesting, (e) lending. Meanwhile, farmers cultivated as directed and submit the results to the partner companies /core according to the agreement.

Forms of facilities provided by the core /Kebon Agung Sugar Factory to the plasma ie farmers and vice versa be described as follows:

4.1. Provision of Incentives Form Loan Fund as a binder Ongoing Contract

During this time, farmers had received a loan facility during each growing season for sugarcane crop management fee in cash with funds derived from:

a) Government

KKPE Loan which earn interest subsidiary from government, channeled through the Bank's Executive on the recommendation of the sugar factory and the factory as well as guarantor or avalis of all such loans.

b) Company

Farmers also obtained a loan from the company in the form of bailout loans for subsidized fertilizer redemption through team - 5 in Kebon Agung Sugar Factory, seeds purchasing among farmers or from outside the area, tractor loan services from outside or third parties. Before the milling season farmers obtain loans to slash transport costs (UMTA).

Control mechanism of the theory of agents states that there were two main ways associated with different goals and asymmetric information, ie: monitoring and incentives. Kebon Agung Sugar

Factory understands the problem by providing incentives funding by providing loans known as Advances Cutting and Transport (Uang Muka Tebang dan Angkut/UMTA). So, farmers were able to fund their daily harvest.

4.2. Provision of Inputs as a Form of Incentive for Fastener Ongoing Contract

Provision of inputs or the means of production for farmers was very helpful for farmers who had difficulties in finding best quality seeds, so they did not need to search for or buy in the market which be added to the transaction costs. With the provision of these inputs, the farmers be more motivated to partner with Kebon Agung Sugar Factory thus increasing their productivity level with the new innovations and seeds provided by Kebon Agung Sugar Factory.

4.3. Provision of Extension and Development of the Monitoring / Supervision to Farmers

In order to implement well partnership program, Kebon Agung Sugar Factory with its ability and facilities provide guidance, guide and conduct to farmers primarily associated with the cultivation of sugar cane and its development aspects. The approach in conducting farmers through the Partnership Forum Meeting (FTK/ Forum Temu Kemitraan) at the level of the sugar factory and Implementation Regional Consultative Forum (FMPW/ Forum Musyawarah Pelaksana Wilayah) in sub-district level. Subsequently followed up with the training and visit system (Laku / Latihan dan Kunjungan) which was more intensive to each farmer, hoping farmers willing to plant sugar cane using cultivation techniques correctly and develop their plant until reach outside the work area, which was in the area of development.

According to findings, it appears that the personal ties between Kebon Agung Sugar Factory officers and farmers often play a major role in building partnerships. The key was respect of farmers against the officers. Therefore equip Sugar Factory Field Officer (Pegawai Lapang Pabrik Gula/ PLPG) the ability to act as a sort of steering and counselors become a necessity. Various training and working visits made to enable staff to had enough skill to interact and communicate with farmers. Also a means to communication activities, such as transportation, etc.

Therefore, the findings sufficient to conclude that partnership contract between Kebon Agung Sugar Factory and farmers in accordance with the principle of partnership which emphasizes: equality, equality in decision-making. According to the findings, farmers feel valued and had a significant role in decision making for business partner so that the company did not directly depend on the farmer ; which good service from field officers to farmers was an evident in this study that be able to achieve a win - win solution between the two sides.

4.4. Supply of Raw Materials from Farmers Milled at the Sugar Factory as a Form of Mutual Relationship

Kebon Agung Sugar Factory had played its role as a partner company that had provided the provision of loans and guidance to farmers regarding the quality of its cane sugar market demanded. Incentives and other facilities provided to the cane farmers were not merely in order to help meet the needs of farmers, but rather as a binder for farmers to sell all the sugarcane to the sugar factory. Thus the farmers' bargaining position becomes the weaker partners. This was of course contrary to the theory of partnership argued by Hafsah (2000), which stated that essentially the intent and purpose of the partnership was a "Win -Win Partnership". In a partnership, bargaining position must be equal, based on the role of each party in partnership.

5. Trust Formed On The Process Of Partnership

5.1. Contract Enforcement Process as a Form of Reputation of Kebon Agung Sugar Factory

To prevent deviant behaviors of farmer partners or to continue to be an incentive for farmers to further improve cooperation with the company, Kebon Agung Sugar Factory also had run an additional instrument which kind of extralegal security company to keep their reputation in front of farmers to carry out its obligations as propmptness payment of auction results, precise cutting schedule, and continue to keep a smooth line. By doing so, that was the capital for the company to

maintain confidence for farmers. Thus indirectly the farmers work in the long run with Kebon Agung Sugar Factory. And if it was connected in the modern economy at least the type of contract could be divided into three types, namely the theory of agency contract, self-enforcing agreements theory, and relational-contract theory [Furubotn and Richter, 2000:147 ; in Yustika 2008:107]. If the agency contract theory assumed that agreement was legally enforceable, the case was different if contract enforcement applied in relational contracts where contract enforcement in this case was not resolved through the courts but it was achieved through a balance of cooperation and coercion (coercion), as well as communication and strategies. Thus, relational contracts commonly applied in situations where there was bilateral dependence between two parties, namely Kebon Agung Sugar Factory takes raw materials from farmers, and the farmers themselves in the need of facilities ranging from funding, inputs, and in terms of cultivation. So that enforcement of the contract in this case was also formed because of the mutual trust between the two actors.

5.2. Market Guarantee for Farmers Partner to Sell Whole Raw Materials

In this case, Kebon Agung Sugar Factory did not buy all the sugarcane from farmers but to implement the sharing system, ie 66 % for sugar farmers and 34 % for Kebon Agung Sugar Factory. So Kebon Agung Sugar Factory only provides milling services to farmers with wages 34 % of sugar produced. Sugar produced be sold in an auction system. Sugar auction was conducted once every week. Kebon Agung Sugar Factory gives freedom to farmers to take a 66 % sugar or entrust it to be auctioned. Then Kebon Agung Sugar Factory auction 90 % sugar and 10 % of it be given to farmers in the form of sugar.

In addition, (George A. Akerlof's: in Yustika 2008:107) which was considered as a pioneer of the theory of asymmetric information, through his monumental work, *The Market of the "Lemons": Quality Uncertainty and the Market Mechanism* (1970), found that asymmetric information occur among transactors could be reduced through intermediary market institutions, which was often referred to as counteracting institutions. A great example was intended to demonstrate institutional guarantee / warranty (guarantees) on goods. And in relation to this was to convince farmers to supply the whole production to Kebon Agung Sugar Factory, then Kebon Agung Sugar Factory also guarantee its farmers to the market in terms of sales. Meaning as described above that the entire production be sold through farmers' open auction. That way, even if the company had more information or happening that happened in asymmetric information between the parties transactors sugar factory indirectly responsible under the theory of George A. Akerlof's which states that asymmetry information could be reduced through institutional intermediaries market with a guarantee to the farmers market.

5.3. Reward for Encouraging Farmer's Performance

In terms of cultivating sugarcane, farmers also depended on the performance or willingness to perform in order to compete or at least be able to add to its earnings. But Kebon Agung Sugar Factory in coaching could also play a role in planning, implementing, and controlling its farmers to keep motivated to always grow and excel. Given these circumstances Kebon Agung Sugar Factory create an opportunity for every farmer partners with achievement, Kebon Agung Sugar Factory would give attention to the achievements obtained by way of reward (reward, benefit, and award. A reward may bring a farmers' motivation to increase its performance, having a high responsibility towards his job. The sugar factory would be easy to meet planned objectives and on the same time, no party losses due to reciprocity.

5.4. Service and Sympathetic Guidances to Farmers

One of the increases in productivity of sugarcane and sugar yield was once intended to raise revenue, was related to farmers' problems or constraints that must be solved. Generally, small scale sugarcane farmers were having problems in accessing technology due to capital and educational constraint. In addition, an effort to increase accessibility of small farmers was through increasing access to means of production and the market should be a concern. Therefore the farmers access issues should be studied in depth to create a policy in order to increase farmers' accessibility to technology, the means of production and the market.

Counseling aimed to identify the ability of small farmer's access to new technology, production facilities were expected to be a recommendations for smallholder farmers in achieving self-sufficiency, as well as the market in sugar cane farming. So the sympathetic counseling and guidance was also intended to allow farmers feel cared which foster mutual trust to keep in business for common purpose.

5.5. Prioritizing the "Loyal" Farmers to Maintain Contract Sustainability

Kebon Agung Sugar Factory prioritizes partnering with loyal sugarcane farmers. That was, the company not want to take the risk of partnering with farmers who just had a lot of land but not loyal. Thus, Kebon Agung Sugar Factory not haphazardly partnering with farmers who had never undergone a contract with. New farmers who want to partner with Kebon Agung Sugar Factory must first join a group of farmers who had long or where the chairman was a firm belief of farmers that be guiding the new farmers to partner with the factory. By doing so, field officers be easier to keep an eye on the new farmers, regarding its loyalty and good track record in terms of credit repayment because the group leader was also obligated as guarantor for each member of each group.

5.6. Research Findings

There were many realities that were found in the research done so far. Referring to the Decree of The Minister of Agriculture No. 940/Kpts/OT.210/10/1997 regarding business partnership guidelines, partnership pattern used by Kebon Agung Sugar Factory, Malang and sugarcane farmers was core-plasma pattern. Because this research found that Kebon Agung Sugar Factory act as corporate partner/ core and sugarcane farmers act as a farmer partners / plasma. Kebon Agung Sugar Factory in executing the contract must provide funds for loans from the government Loan for Food Security and Energy (Kredit Ketahanan Pangan dan Energi / KKPE), which in this case acts as the insurer of all AVALIS risks to loans granted to farmers partner. In this case, loan payment would be directly deducted at the time of disbursement of auction. In addition, the company was still providing Advance Cutting and Transport (Uang Muka Tebang dan Angkut/UMTA). The difference was, UMTA was provided to farmers without interest. Further, farmers also supported with the provision of counseling and guidance in terms of good sugarcane cultivation. There was also a provision of the means of production from Kebon Agung Sugar Factory such as seed and tractors to support farmers.

However, facilities provided above did not necessarily aid to help farmers entirely. Those facilities were intended to bind farmers to supply all the raw materials to the company as per the agreement in the contract. This was basically because the company did not had its own land as their own input suppliers. Land owned by the company was less than 1 %, so inevitably they had to meet the production needs from farmer partners.

The trust was formed so that the creation of a partnership contract executed between Kebon Agung Sugar Factory, Malang with farmers affected by several factors, namely: the enforcement of the contract that had been executed well by the company. Including the results of the auction payment rate of sugar. In contrast to most other sugar factory, Kebon Agung Sugar Factory disburses the proceeds of the auction once per period, or less than once a week so that farmer's turnover was faster. The continuity of sugarcane truck queues and timeliness were also considered the main attraction to the partnership contract with Kebon Agung Sugar Factory. The most important of beliefs formed in this partnership contract was a guaranteed market provided by the company with the open auction system so that products could be sold by all farmers with revenue sharing agreement. Giving rewards to farmers and sympathetic guidance makes farmers feel valued and motivated to carry on business as good as possible. The company prefers "loyal" farmers than abundant raw materials but being shared with other company.

6. Conclusions And Recommendations

6.1. Conclusion

Based on the findings in the field and the discussion that had been done in the case of patterns and trust in partnership contract between Kebon Agung Sugar Factory and sugarcane farmers, it could be summarized as follows:

Pattern applied to the partnership contract between Kebon Agung Sugar Factory and sugarcane farmers was the core-plasma pattern. The findings stated that Kebon Agung Sugar Factory act as corporate partne / core and cane farmers act as farmer partners / plasma. This partnership also conducted with farmer groups, so that production could be more orginized in one stretch with certain minimum scale joint venture. Corporate partner/ core which in this case was Kebon Agung Sugar Factory obliged, among others in: (a) the provision of credit, (b) providing the means of production, (c) providing technical guidance patterns of cultivation and post-harvest. Meanwhile, farmers cultivate their land as directed by Kebon Agung Sugar Factory and submit the results to the partner companies/ core according to the agreement.

With various incentives given by the company to farmers, intended to allow farmers to supply their sugarcane to Kebon Agung Sugar Factory Despite the advantages the factory gave, asymmetric information emerges but did not necessarily make Kebon Agung Sugar Factory off hand, they provide a guaranteed market for its farmers who indirectly encourage farmers loyal to Kebon Agung Sugar Factory.

Farmers even considered sympathetic guidance and services become more dominant factor in the formation of trust in the partnership contract. That way, both the company and the farmers find it mutually beneficial and could keep maintaining their work in achieving common goals.

6.2. Recommendation

The ideal partnership was still in the process, that the process may not be solely left to the private sector and farmers. Government interference was needed in the form of making policies, strengthening a conducive institution at the local level that in achieving an ideal partnership.

Agribusiness Partnership guidelines issued by the Department of Agriculture in 2003, requires that farmers or farmer groups suggested to involved in a partnership were farmers or farmer group that had been fostered by the government. However, this study found that the government extension was not available on-site, so that the conditions were less relevant. New farmers who would do a partnership with Kebon Agung Sugar Factory also revealed that they were looking for information in existing resources in the vicinity, namely Kebon Agung sugar factory field officers, cooperatives, farmer groups and the chairman who previously also been established a partnership with Kebon Agung Sugar Factory.

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