

## Diversification and specialisation as development strategies in organic farms

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### Abstract

Unsatisfying economic performance, continuous work overload or the entrance of the younger generation are often the starting point for reorientation of the farm's organisation in order to increase the farm's efficiency. Theoretically, farmers are faced with two main options when looking for a viable farm strategy: diversification or specialisation. Based on a quantitative and qualitative survey of 40 farms, the results show that the decision to either diversify or specialise is usually a multi-dimensional issue. Only the analyses of the interactions between many different factors may help to understand the decision processes on farms. One central result of the study is that the personality of the farmer is the key driving factor in the decision on specialisation or diversification. The study also reveals that, whereas cost reduction is observed to be a valuable strategy in conventional farming, it seems to be of very limited relevance in organic farming in Germany

### Introduction

Unsatisfying economic performance, continuous work overload or the entrance of the younger generation are often the starting point for reorientation of the farm's organisation in order to increase the farm's efficiency. Usually, two main possible strategies can be distinguished. Specialisation in one or few farm activities aims at reducing production costs and is often associated with an increase of farm size. The second main option is diversification by increasing the number of activities. This strategy usually goes along with a closer contact between farmer and consumer and an increase of return, so that cost saving becomes less important.

Three types of diversification are to be distinguished in organic farming:<sup>2</sup> horizontal diversification is an extension of the existing range of activities, e.g. starting a new farming activity like potato production. Lateral diversification is related with the entrance into new product-market-areas, without a physical relationship with the former activities. This can be agro-tourism, catering or the production of renewable energies. Finally, vertical diversification (vertical integration) refers to pre- or post-agricultural production activities like on-farm processing or direct marketing.

The question of the optimal farm organisation with respect to the number of farm activities realised and the way they are combined with each other has long tradition in farm economic research, starting in the first half of the 20<sup>th</sup> century. The following impact factors were identified: natural production conditions, locality of the farm, infrastructure, general price and cost relations as well as the necessity of creating high

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<sup>2</sup> See Jacobs (1992).

soil fertility by adequate crop rotation and the use of manure, the use of own fodder, break down of work peaks, risk management and the personality of the farmer (see e.g. Aereboe 1919, Brinkmann 1922, Weinschenck and Henrichsmeyer 1966, Kuhnert, 1998). These factors determine the optimal farm organisation and the number of farm activities and thus a farm's degree of specialisation or diversification.

The aim of this contribution is to identify the key driving forces for the strategic decision regarding specialisation or diversification in organic farms. The results should help farmers to decide whether to opt for specialisation or for diversification.

### **Methodological approach**

The study was designed as an explorative study and thus the results are not representative for all organic farms in Germany. Interviews were realised on 40 successful organic farms with a clear decision for diversification or specialisation in the past. These farms were selected in close cooperation with organic farming extension workers and are supposed to serve as good examples for other farms in an orientation phase.

The survey combined quantitative and qualitative elements in face-to-face interviews. The qualitative part was mainly used when asking farmers to report on their farms' history in an almost narrative way, pointing at important events. A short initial interview with 12 advisors of organic farming revealed that the personality of the farmer was seen to be one key driving factor in determining the farm's development into specialisation or diversification. To grasp this issue the DISC personality concept was used in close cooperation with the extension workers. DISC is a commercial product initially developed for management purposes and it clusters people in four main dimensions: dominance, influence, steadiness and conscientiousness according to their behaviour (CIC 2007, Persolog 2007). This tool was supplemented with five items aiming at classifying personalities according to the "Big-Five" personality dimensions (Rammstedt et al. 2004). With respect to the farmers' behaviour and attitudes in their daily work some additional statements were included as well.

### **Results**

The group of surveyed farms contains all farm types and farm sizes located in different natural conditions. In analysing the results it has to be differentiated between the mere agricultural production on the farms and the whole farm system. With respect to the underlying question clear specialisation and diversification strategies can be identified in pure agricultural production: 13 farms chose the way towards specialisation, 14 farms diversified and 12 farms remained almost unchanged with respect to the number of agricultural activities.<sup>3</sup> But looking at the farm organisation in general, the picture is quite different. At this level, 80% of the farms have diversified their whole farm organisation, either horizontally, laterally or vertically. Most important activities besides agricultural production are direct marketing (82%)<sup>4</sup> and on-farm processing (46%). This causes the rather high endowment of labour of 7 agricultural work units

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<sup>3</sup> One farm had to be skipped for not being a successful farm with demonstration capability to other farms.

<sup>4</sup> Direct marketing is understood in a wider sense and includes marketing directly to the consumer and marketing via retailers (see Kuhnert 1998).

per 100 ha on average on the surveyed farms, while the average number of labour units in organic farms is reported to be about 2 units per 100 ha (BMELV, 2006).

Aiming at the identification of similarities, four main groups of farms were created according to the development strategy realised. There is the group of farms that diversified with respect to their agricultural production and also to other activities like e.g. on-farm processing, direct marketing, renewable energies etc. (Type 1). Another group of farms stayed with about the same diversity in agriculture, but diversified in vertical direction (vertical integration) (Type 2). The third group specialised and now concentrates on few agricultural products (Type 3), while the last group specialised at the whole farm level, as they reduced their farm activities and ended up with a rather simple farm organisation with one or few agricultural activities (Type 4).

Looking at the key driving forces for the decision to specialise or to diversify, there are no differences between the farm types with respect to endowment of land or the increase in acreage in turn of the farm's development. Almost all farms increased their farm size largely over time. The availability of highly qualified family or employed labour however is a precondition for a successful diversification. An aspect becoming ever more important is specialisation within the diversification by spreading responsibilities to various persons. The differences between the four groups became most obvious with respect to the personality of the farmer himself. For the summary of the results see Table 1.

**Table 1: First results on differences between farm types according to their strategy regarding specialisation or diversification**

Farm type	Features
Type 1	Farmers are always outgoing but are less direct and decisive and they like to work in a collaborative way. Diversity is of high importance for the farmer. They have good marketing opportunities. Two generations work on the farm. Highly motivated family or employed labour.
Type 2	Farmers are decisive and very extraverted. Diversity is of high importance for the farmer. They have good marketing opportunities. Two generations work on the farm and family or employed labour is highly motivated.
Type 3	Farmers are outgoing, correct and even-tempered. In the term of the farms' development they often passed Type 1 or 2, now concentrating on most successful farm activities. Most pragmatic organic farmer.
Type 4	Farmers are not outgoing, instead rather steady and introverted. They like to be independent. Quality production is highly ranked. Very low availability of (family) labour. Specialised also in the past.

### Conclusions

One important conclusion drawn from the results presented here is that diversification and specialisation in organic farms is a very complex issue. Farmers cannot simply be classified into the diversifying farmer on the one hand and the specialising farmer on the other hand. There are various forms of diversification in organic farms, and there is also diversification with specialisation in one and the same farm. Only the analyses of

the interactions between various factors may help to understand the decision processes on the farms. However, the personality of the farmer turned out to be the key driving factor in the decision on specialisation or diversification.

Most of the surveyed farms chose the way towards diversification on the level of the whole farm enterprise. An important motivation for the farmers to opt for the vertical integration was to be able to earn their livelihood by keeping the added-value of their products on farm. Only 10% of the farmers were "real specialisers". However, even these farmers care about the marketing of their products, such as engaging in farmers marketing associations or cooperatives, or being so large that good conditions can be negotiated on the markets. Thus one important result of this study is that pure cost reduction as observed to be a valuable strategy in conventional farming seems to be of very limited relevance in organic farming.<sup>5</sup>

However, this study used an explorative approach and it does not aim to be representative for the whole organic sector in Germany. The selection of study farms might be biased as the cooperating extension workers all are from organic farmers' organisations. It is likely that "cost minimising farms" are not members of organic farmers' organisations, but only follow the EU council regulation on organic farming (EU VO 2092/91).

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<sup>5</sup> This result is supported by Nieberg and Offermann (2007), who found comparatively high prices as a major reason for high profits in organic farms.