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EXPLORING THE ASSOCIATION BETWEEN TRUST AND CONTRACTING IN AGRIBUSINESS SECTOR: EVIDENCE FROM ALBANIA

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ABSTRACT. This paper seeks to explore the association between trust in the main buyer and contract farming in the agribusiness sector. Despite numerous studies in this field, there is no consensus among scholars, which is the motivation behind undertaking the present study. The research is based on primary data collected through a structured survey in Albania (640 respondents) during December 2019 and January 2020. Several methods were used to examine the relationship between trust and contract farming, including factor analysis, a reliability test, and a non-parametric statistical technique. The results show that trust and contracting have a significant relationship in the context of the agribusiness sector. Moreover, the findings demonstrate that there is a positive correlation, meaning that those with a verbal or written contract exhibit higher trust than those without any prior agreement to sell the product. The scientific contribution of this study is that it presents further arguments and justifications to a controversial discussion and sheds light on a little-studied context such as Albania.

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Introduction

Farmers are considered to be the backbone of the agriculture system and if there is a lack of trust, there will not be an established relationship with their buyers. Trust in this relationship can be called a double-edged sword: if present, it will lead to a successful relationship, but if the trust is missing, the relationship will not work. Regardless, the research shows that a relationship between the farmer and the buyer exists even despite the lack of trust. The question of whether there is a link between trust and contract farming has long been debated by many scholars. For this, researchers have tried to analyse them, first, separately to fully understand individual factors of influence, and second, together to see the impact that trust and contract farming have on each other. Despite numerous studies and extensive information, there are no definitive conclusions, on the contrary, there are many points of view on this subject. Therefore, through this paper, we try to shed some light on this issue.

Contract farming for agricultural products has existed for a very long time. This is why it is considered a marketing channel for farmers, taking into account the competition from bigger competitors. There are many disadvantages if the contract farming arrangements break down (Prowse, 2012). Thus, it has to be a “win-win” scenario for both companies and farmers to make the most out of contract farming’ advantages (Bijman, 2012; BIRTHAL, 2008; Evteeva et al., 2019).

Transaction cost theory is where contract farming is based. It focuses on opportunistic behaviour and can be explained by the characteristics of transactions: the level of uncertainty, the likelihood of recurrence, and the degree of asset specificity (Williamson, 1979). Furthermore, it has concluded that each type of transaction produces costs. Czernek (2017) claims that transaction costs can be reduced by the existence of trust.

There is a loss of trust in business since people do not know which companies are honest or acting in their best interests (Dumay et al., 2019; Nefzi, 2019). Since power influences the relationship quality of contract farming (Maloku, Çera, Metzker, et al., 2021; Xhoxhi et al., 2018), it was suggested that out of the three dimensions of power, scholars should refrain from using “Power Over Margin” and exercise more “Power Over farmers activities that contribute to Losses at the Intermediary stage” and “Power Over farmers Input Selection activities”. Accordingly, such change leads to the development of better relationships (i.e., high in trust and low in conflict). It is well accepted by researchers that trust plays an important role in business relationships (Franklin & Marshall, 2019; Piricz, 2018; Pirson et al., 2019; Tari et al., 2020) by reducing transaction costs (Czernek et al., 2017; Schomaker & Bauer, 2020).

Agriculture is known as the backbone of the economic system and the main source of national income for most developing countries: 3.4 billion people live in rural areas; agriculture, forestry, and fishing, value added (% of GDP) in the world was estimated at 4% in 2018; and there are more than 570 million farms worldwide (World Bank, 2018). Additionally, agriculture has its imperative impact during various crises including the negative effect of the '80s farm crisis in the USA, or farmer suicides in India since 1995, influencing the farmer as the first link of the chain.

The purpose of this research is to explore the association between trust in the main trading partner and contract farming, in the context of a developing country, Albania. Even though there are several viewpoints regarding the trust-contract farming relationship, we are trying to bring some light into this research issue.

The paper is organised in five sections in addition to this one. The second section consists of the literature review. The third section describes the methods and procedures used in this article. The fourth section reflects the analysis and results. After the discussion of the results, the conclusion section ends the paper.

1. Literature review

Albania's history has faced many political conflicts and economic failures, being one of the last countries to enter the road of transition towards the free market regime in 1991. It experienced an increase in agricultural production since the very beginning phases of the reforms. Agriculture is the largest contributor to Albanian GDP, around 18.63 per cent in 2019 (INSTAT, 2020). The consequences of the reforms on land use and ownership led to a drastic fragmentation and diffraction of former agricultural cooperatives into private farms. As a result, family farmers cultivate small parcels, almost only 0.5 hectares. The average household size is 4 to 5 members with a level of household head education of more than 9 years. Uncommonly, only a small percentage of 7 per cent of all Albanian family farms are operated by women, suggesting that farming is a male-run area, although women serve as workers' contributors (FAO, 2018). Nevertheless, Albania is still characterized by inefficient formal institutions and poor law enforcement, which discourages the use of contracts, giving both parties the freedom to trade without agreement; a feature of transition countries (Draskovic et al., 2019; Draskovic et al., 2020).

Different definitions of contract farming vary from country to country depending on unique circumstances (Asokan, 2007; Ćepel, 2019; Ton et al., 2018; Uslu et al., 2020; Will, 2013). There are two categories of contract farming: formal and informal contracts. Formal contracts are written contracts (e.g., between a farmer and a manufacturing company), while informal ones are unwritten.

In recent years, contract farming has become more significant and has attracted attention from developing countries. This recognition is due to the fact that contract farming is a process by which farmers can sell their products, resulting in higher incomes, higher productivity, modernization of the sector, and growth in these countries (Bellemare & Bloem, 2018; Maloku, Çera, Poleshi, et al., 2021; Nguyen et al., 2015). As contract farming has become more relevant for developing countries' agri-food industries, there is a need for better insight into the benefits and drawbacks of contract farming, as well as the conditions in which it operates both efficiently and equally.

According to Imami et al. (2013), written contracts are uncommon, whereas verbal agreements are more common and the mode of trade is dominated by spot market transactions. The evidence indicates that larger farms prefer formal contracts, whereas informal contracts are more appropriate for smallholders' needs (Fafchamps & Lund, 2003; Grimard, 1997). Albania has almost 74 per cent of small family farmers (FAO, 2018), yet the majority relies on the spot markets without any type of agreement (Imami et al., 2013; Keco et al., 2019).

By taking into account the economic perspective of the transaction costs, it could be argued that the above facts are due to the organisation of trading relationships (i.e., spot market transaction, contracting or vertical integration). Transaction costs are higher for small farms, both for the farms themselves and for their partners in transactions due to small-scale diseconomies. The theoretical framework of transaction cost economics highlights that when spot market transaction costs are high, it is possible to obtain economic efficiency benefits by entering into different modes of vertical coordination rather than by organizing spot market sales (Williamson, 1991). Contract farming is located "somewhere" between spot market transactions and vertical integration (Prowse, 2012) and it can be considered as reducing the transaction cost to organize the production and distribution process between farmers and their customers (Bijman, 2012).

Trust is a structural part of sustaining any effective sales' relationship, and a business transaction would likely not occur without trust. Trust is considered as the most significant contributor of contract farming. That can only succeed when both sides agree that they are better

off by participating in the agreement, understanding each other's needs and problems. This demands a willingness to cooperate and exchange data between parties. Fritz and Fischer (2007) observed that trust is positively affected by quality communication and positive collaboration experiences in the past.

Trust is considered as an important factor in cooperation between two or more partners (Fulmer & Gelfand, 2012) including institutional trust (Alkhurshan & Rjoub, 2020; Bencsik et al., 2020; Çera, Meço, et al., 2019; Civelek et al., 2019). It is an essential determinant of a successful buyer-seller relationship (Batt, 2000; Piricz, 2018). A buyer's trust in their supplier decreases the risk associated with opportunistic behaviour, increases the buyer's confidence that short-term inequities would be resolved, and lowers transaction costs (Czernek et al., 2017). Farmers who trust their buyers are more likely to engage in long-term business relationships (Gërdoçi et al., 2017). It is important to differentiate between contractual trust, competency trust, and goodwill trust (Woolthuis et al., 2005). Contractual trust rests on the universal principle of honesty and keeping promises. Competence trust is focused on the assumption that the roles will be performed competently. Goodwill trust willingness to do more than expected. Someone who is the dignitary of goodwill trust is dependable and can be granted some diplomacy, for they can be trusted to take steps while refraining from taking unfair advantage of the partner. A study concludes that when there is little trust in legal compliance, formal contractual relationships are less frequent, avoiding entering into formal contracts (Bakucs et al., 2010).

The buyer-seller relationship is influenced by many factors, whether directly as trust or indirectly as satisfaction. Thus, for the creation of trust, management actions, and the manner of communication are essential (Schulze & Spiller, 2006). Both parties must recognize that how they exercise control affects not only the efficiency of trade relations, but also the performance of the entire chain. Advice from the intermediary to the farmer may be an instrument to build faith and reduce the probability of contractual defaults.

Based on the classification of business-to-business relationships in terms of trust and conflict (Schulze & Spiller, 2006), trusting cooperation's is closer to the vertical partnership than adversarial relationships. Furthermore, based on the fact that contract farming stands "somewhere" in-between spot market transactions and vertical integration (Prowse, 2012), it means that there may exist a link between trust and contract farming.

As mentioned above, there are many papers on this subject, which do not have a common conclusion. Based on the literature review, three outlooks have been identified by answering our question. First, as it restricts the possibilities and rewards for opportunism, transaction cost economics and contract theory see the contract as a foundation for trust. This linkage encourages parties to trust each other, so they have no other choice of trustworthy conduct. Here, contract and trust are positively related, with the contract as a prerequisite for trust. Second, the contract is seen 'in conflict' with trust. Since contracts can be viewed as a symbol of mistrust, they can be counterproductive to the creation of trust, hence in this view, contract and trust are negatively related. The third interpretation states that trust and contract are adversely linked, with trust preceding and 'integrating' partnerships, thus removing the need for explicit regulation or contracts.

One of the most frequently asked questions on this subject is whether trust and contracts are complementary or substituted for each other. Woolthuis et al. (2005) managed to summarize many authors' conclusions around this question. On one side, high trust and formal control are found together and can be conceptualized as complementary mechanisms or found trust to be a precondition for contracts. Studies, on the other hand, show that trust decreases the need for contracting and monitoring and therefore trust can be anticipated as substituting for formal control. Contract farming can assist farmers in reducing market-access risks, adopting

innovative technologies, increasing production, and improving product quality, which are already problematic in Albania (INSTAT, 2019; Rama et al., 2019). This paper aims to shed light on contract farming and its linkages with trust in the main trading partner.

2. Methodological approach

2.1 Aim and research instrument

The scope of this paper is to explore the association between trust in the trading and contract farming, in the context of a developing country, Albania. The results of this study aim to enrich the literature in this field and offering additional shreds of evidence in favour or not to the above relationship.

The paper is based on a survey of Albanian farmers. The survey was conducted by way of a structured questionnaire that was designed based on an extensive literature review, in-depth interviews, and consultations with agricultural economists and scholars. The survey instrument collects basic information about farm structure and production, farm household demographics, relations with buyers as well as farmer perceptions and other related information needed to test the study hypothesis.

The data is collected by interviewing 640 farmers in five municipalities. Almost all farmers that were approached participated in the survey. The data collection was carried out during December 2019 – January 2020. Most interviews were carried out in Lushnje, almost 49% of respondents and Konispol with 16%. These regions are considered as the centres of agricultural exports, where the highest number of farmers are and where the contracting farming is expected to be used the most. 57% of the interviewees are male, while 43% are female. This proves that women are seen more as worker contributors compared to men. The average age of the respondent is 58 years old and included in the interval between 25 and 65+ years old (Table 1). Farmers are characterised by low education (9 years of education), showing that most of them do not have the necessary information before starting the business.

Table 1. Sample profile

Variable	Category	Count	Column N %
Gender	Female	275	43%
	Male	365	57%
Age of the respondent	25-34 years old	36	6%
	35-44 years old	42	7%
	45-54 years old	148	23%
	55-64 years old	191	30%
	65 + years old	223	35%
Education of the respondent	Elementary-up to 4 years	43	7%
	Secondary-8/9 years	353	55%
	High School	164	26%
	Professional High School	58	9%
	University	22	3%
Municipality	Has	68	11%
	Ura Vajgurore	80	13%
	Maliq	80	13%
	Lushnje	312	49%
	Konispol	100	16%

2.2 Variables

The two main variables of this study are contract farming and trust in the buyers. Contract farming is measured with a dummy variable, where 1 is coded a farmer that has a prior agreement with the main buyer, and 0 is coded a farmer that has not any prior agreement with the main buyer.

Trust in a buyer is measured as a composite variable. Four statements were formulated to capture it, which are: I trust the information the buyer gives me (ex-market prices), The promises made by my buyer are reliable, Generally, my primary buyer does not take actions that could harm my business, I trust my buyer. Each statement was formulated as a Likert-type scale with five options: 1 = I do not agree at all, 5 = I agree very much. To compute the trust variable, factor analysis was performed.

Figure 1 shows the distribution of the answers of the respondents per each statement/indicator. As can be seen, almost half of farmers [47% = (111 + 189)/640] have responded do not trust the information that the buyer gives to them while 36% have responded that they somewhat have trust. It is obvious that less than 17% trust their buyer, and this may be due to the reasons shown in the literature review. Almost the same logic goes to the next two questions regarding the buyer not acting to harm the business and if their promises are reliable. Almost 40% of the farmers somewhat agree while the other part has answered negatively showing that there may be problems in the relationship buyer-seller, and the communication between them. Lastly, almost 40% of respondents do not trust their buyer, while 30% of them trust their buyers. It is seen that from the data, farmers answers are divided showing that part of them trusts their buyers, while the other part does not.

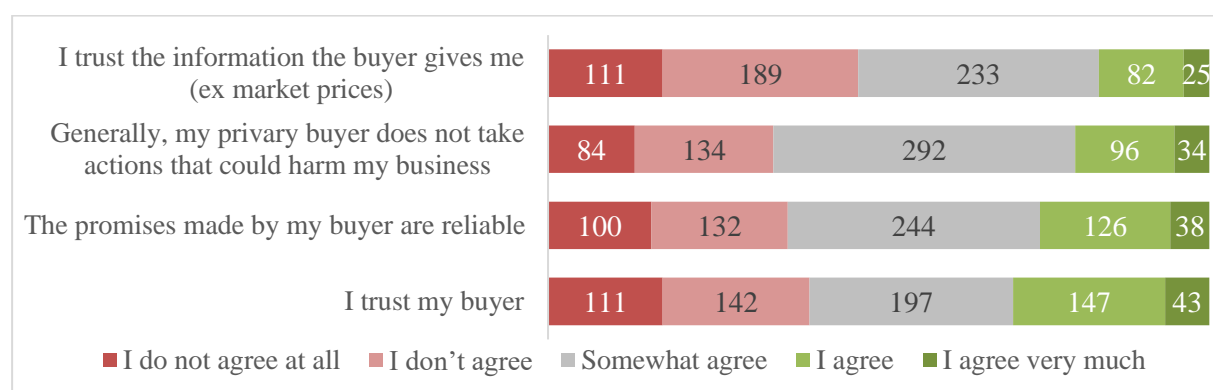


Figure 1. Answers per each statement/indicator of trust in the buyer

Source: own research

3. Results

Four indicators were developed and used to capture the trust of the farmers in the trading relationship. To create one single variable, in this study, explanatory factor analysis was employed (Fabrigar & Wegener, 2011). As it was expected, only one factor emerged from the performed principal component analysis, explaining 76.66% of the variation in the sample. The Kaiser-Meyer-Olkin value was greater than the threshold of 0.70 and Barlett's test of sphericity was significant (Hair et al., 2010), which provide evidence of the appropriateness of factor analysis. The component matrix is shown in Table 2. All factor loadings were well in excess of Stevens (2015) benchmark of 0.40, showing evidence of construct convergent validity.

Table 2. Component matrix and Reliability test

Statements	Loading	Communalities	Cronbach's Alpha if Item Deleted
I trust the information the buyer gives me (ex-market prices)	.896	.802	.595
The promises made by my buyer are reliable	.875	.766	.605
Generally, my primary buyer does not take actions that could harm my business	.870	.757	.897
I trust my buyer	.861	.741	.618

Note: Extraction method, Principal Component Analysis. Kaiser-Meyer-Olkin Measure of sampling adequacy = 0.837. Sig. Bartlett's test < 0.001. Eigenvalue = 3.066; Variance explained = 76.66%; Cronbach's alpha = 0.731. Source: *own research*

In addition to the factor analysis results, a reliability test was performed for the emerging factor. The Cronbach's alpha of that factor was found to be 0.731, which is above the conservative threshold of 0.7. Thus, there is no concern with the reliability test (see Table 2).

To investigate the differences in trust in the trading relationships between farmers who had a prior agreement or not, an independent t-test can be used. However, this statistical test assumes that the variables should reflect certain properties, where one of them is normally distribution of the variables (Pallant, 2016). In cases when this principle is violated, then a non-parametric technique such as Mann-Whitney test can be performed. To investigate whether the above assumption is satisfied or not, Kolmogorov-Smirnov test in SPSS 23 was executed (Meyers et al., 2013), and their results are reported in Table 3. The tests showed that both the indicators and the extracted factor do not follow a normal distribution, signifying the use of the Mann-Whitney test instead of the independent t-test.

The aim of this work is to link trust in trading relationship with trading with an agreement or not. Considering the nature of the variables under study, this aim can be achieved by testing for the difference between the two groups of farmers, those who trade with a prior agreement and those without any prior agreement. In case of the confirmation of a statistical difference between the two groups, then the above association is established.

Table 3. Test of normality

Statements	Mean	Standard deviation	Kolmogorov-Smirnov ^a	
			Statistic (df=640)	Sig.
I trust the information the buyer gives me (ex market prices)	2.56	1.04	.194	.000
Generally, my primary buyer does not take actions that could harm my business	2.78	1.02	.244	.000
I trust my buyer	2.80	1.17	.174	.000
The promises made by my buyer are reliable	2.80	1.11	.210	.000
Trust in buyer (<i>as a composite variable</i>)	0.00	1.00	.068	.000

a. Lilliefors Significance Correction

Source: *own research*

To test the above proposed association, Mann-Whitney test was run. It was found that, when comparing the two types of agreements, farmers perceived trust significantly different (see Table 4). Indeed, farmers who had a prior agreement with the main buyer manifested higher trust. This result is consistent for the four indicators of trust and the composite variable. The result of the test showed that farmers with no prior agreement (mean rank = 357.02) have scored in "I trust the information the buyer gives me (ex-market prices)" lower than those with a prior agreement (mean rank = 496.84) ($U = 6608$, $z = -3.792$, $p < 0.001$). Similarly, in case of the

other three statements, it was demonstrated that those with prior agreement score higher than those without any agreement with the main buyer, which are “generally, my primary buyer does not take actions that could harm my business” ($U = 7181.5, z = -3.326, p < 0.01$), “the promises made by my buyer are reliable” ($U = 7233.5, z = -3.212, p < 0.01$), “I trust my buyer” ($U = 6505, z = -3.837, p < 0.001$).

The last row of Table 4 refers to the results of the Mann-Whitney test related to the composed variable of trust in the buyer. As can be seen, it was found that farmers without prior agreement with the main buyer (mean rank = 357.25), scored in this variable lower than those with agreement (mean rank = 491.77) ($U = 6765, z = -3.504, p < 0.001$). Considering the above results, it can be concluded that there is a significant association between trust in trading with the main buyer and contract farming. Moreover, it was identified that this relationship is a positive one, meaning that those with prior agreement had a higher trust, compared to those without any agreement.

Table 4. Results Mann-Whitney test: Prior agreement with the main purchaser

Statements	Mean rank		Mann-Whitney		
	Prior agreement		U	z	p
	Yes (n = 31)	No (n = 694)			
I trust the information the buyer gives me (ex market prices)	496.84	357.02	6608	-3.792	0.000
Generally, my primary buyer does not take actions that could harm my business	478.34	357.85	7181.5	-3.326	0.001
The promises made by my buyer are reliable	476.66	357.92	7233.5	-3.212	0.001
I trust my buyer	500.16	356.87	6505	-3.837	0.000
Trust in buyer (as composite variable)	491.77	357.25	6765	-3.504	0.000

Source: own research

4. Discussion

This research has shown useful results regarding the link between trust in trading and contracting the main buyer. The data showed that trust in trading partner is significantly linked to contract farming. Even though the results are clear, there is a need to discuss them. This discussion takes place in the following paragraphs.

In respect to rigor methodological procedures, firstly, to compute trust in trading as a variable, four indicators/statements were used. Secondly, to calculate the weight of each indicator for the composed variable, factor analysis was performed. Thirdly, the emerging factor was tested whether it associates with contract farming or not employing a non-parametric method. These steps were followed to study whether the proposed relationship is supported by a set of data from a developing country or not.

Given the divergent views among scholars about the type of relationship between trust in trading and contracting the main buyer, this study aims to contribute by offering some insights from a developing country. As listed in the Literature review section, there are three main views over the above relationship. The first one sees contracting the main buyer as a function of trust (Cline & Williamson, 2020; Gulati & Nickerson, 2008). The second view tries to justify a negative association between trust and contracting (Chen, 2000; Fehr & Schmidt, 2001; Hilary & Huang, 2015). The third perspective aims to demonstrate an adverse linkage between the two factors (Ghoshal & Moran, 1996; Larson, 1992). The current research's results support the first view, by showing that having or not a prior agreement with the main buyer is positively associated with trust in the buyer.

Our research has several limitations. Firstly, we havenot taken into consideration the desires of farmers as contracts are planned. It is possible not to commit and not cooperate if they have to sign contracts that are not uniformly with what they expect. This has a negative impact on trust between the parties of the relationship. Therefore, it is necessary to sign a contract which is in line with their preferences. Secondly, one limitation of our research is that it does not take into account factors affecting trust. Based on other studies, factors such as communication and reliability have a positive effect on trust, whereas factors such as power and opportunism have a negative impact. Additionally, factors such as price, image/reputation, duration of the contract, management competence, and enterprise performance often have an impact on trust in an indirect way through satisfaction. It is beneficial to study the factors that have a significant impact on trust, to understand the connection between trust and contract farming. Lastly, it is important to take into consideration the COVID-19 impact on contract farming. It has had an important impact in both direct and indirect ways. The contractor becoming sick with the virus, or a scarcity of components being supplied from a region badly hit by the pandemic, could be direct consequences of the pandemic. Export prohibitions for specific commodities or economic activity shutdowns are examples of government measures that can have an impact on contract performance (UNIDROIT, 2020).

We suggest that future research should focus more on the process of drafting contracts and the clauses contained in them. By studying the clauses, the reason the contract is signed, and how it is used during the relationship between farmers and buyers, it will be easier to understand if trust exists since the beginning of writing the contract or if it is formed during the collaboration with the main buyer. Furthermore, the legal framework of contract farming in a developed country should be taken into consideration before writing the contract, which has a significant impact on farmers, if something goes wrong. Finally, we need to examine the changes in trust after contracting and the factors that affect trust. By understanding how trust may change, we will be able to understand the impacts that it has on contract farming and food value chain.

5. Conclusion

This research aimed to explore the association between trust in a buyer and contracting product in the context of a developing country. This study is motivated by giving the fact that there is no consensus among scholars over the role of trust in contract farming. In this respect, positive, negative, and adversely associations are shown by research. Hence, this work seeks to shed light over the relationship between trust in the buyer and contract farming.

The current paper demonstrates that contracting the main buyer is positively associated with the trust that farmers have in trading. Given such a positive relationship, it can be concluded that evidence may support the first perspective mentioned in the literature review, which points out that trust positively affects the contracting product. These results are useful for transition countries like Albania, where institutions are relatively weak (Çera, Breckova, et al., 2019).

Given the results from the analysis that trust in trading and contracting the main buyer are positively linked, another issue can be raised, which goes beyond just the relationship. The question is whether such contracts will bring greater revenues to both stakeholders. According to Keco et al. (2019), coordinating their activities through an agreement prior to the harvest season would be better off for both farmers and buyers. Authors recommend scholars to focus on such an issue to enrich the literature and offering solid practical implications in favour of contract farming.

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