

Concept of Farmer's Profit Based on the Value of Equity and Social Welfare

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Abstract: This article tries to explore the problems on the concept of profit of farmers based on the value of equity and social welfare using ethnomethodological approach. The existing culture often see farmer as a low-class occupation, so the welfare of farmers is relatively low. The results of this study show that the concept of farming profit according to the Net Farm Income (NFI), Fair Value and Farm Accounting is not appropriate in measuring the profit of farmers in Indonesia since the three tend to push Indonesian farmer to think logically and materialistically. The concept of profit that emphasizes the value of equity and welfare is important to be applied in the concept of profit for Indonesian farmers. It is influenced by the culture existing in the life of farmers in Indonesia.

Key words: Profit of farmer • Equity • Welfare • Ethnomethodology

INTRODUCTION

Farmers in Indonesia have always been in weak position, which is strongly related to history and culture in the past. In the era of Dutch colonization, there was an event of farmer radicalization, led by a person called ratu adil (The Just King), that put the problems of farmer's land ownership as the root of the agrarian problem [1]. During the era of Orde Lama (Soekarno's era) and Orde Baru (Soeharto's era) farmers were still faced with problems related to land and political system, so they were in a weak position both in economy and politics [2]. Today they are still categorized into poor people in Indonesia [3]. The partnership between farmers and business still has a flaw that makes farmers cannot improve their welfare [4, 5]. Farmers were duped through system of working contracts, in which they are placed as expense in the formulation of profit achievement [6]. Expense in the context of accounting is the decrease of economic value in forms of cash out or deduction of assets. High income can be obtained if the gap between revenue and expense is large. Therefore, expense must be reduced as low as possible [7, 8].

The policy about farming has been formulized in the road map of production improvement of agriculture for sustainable food self-sufficiency and short-term competitiveness (2004-2009), medium-term competitiveness (2010-2014) and long-term competitiveness (2015-2025) [9]. However, the value of import on comestibles remains high with the reason that the domestic production cannot fulfil the national consumption. The following is the growth of import of sugar in Indonesia from 2009 to 2013 (Table 1).

Table 1 describes the volume growth of sugar import from 2009 to 2013, which is increasing. It indicates that sugar as ingredients in Indonesia cannot meet the needs of domestic sugar consumption. In 2014, the amount national consumption of sugar, both for domestic and industry, reached 4 million tons. Meanwhile, the national supply of sugar was only 2.6 ton. In this condition, import of sugar is needed to cover the national demand. In fact, import of sugar in 2014 reached 3.5 ton of raw sugar and 3.3 ton of refined sugar [10]. This phenomenon of import makes local sugar cannot be absorbed because its price is higher than the imported sugar. Market value is influenced by fluctuation of demand and supply [11].

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Table 1: The growth of Annual import of sugar (2009-2013)

Quality of sugar and its consumer	Volume of Import (in thousand ton)				
	2009	2010	2011	2012	2013
Raw Sugar	2,589	2,618	2,582	3,326	3,617
Sugar for direct consumption	13	447	118	61	-
Refined sugar for food and medicine industry	150	158	60	99	89,3

Source: Subiyono, 2014

High amount of import is the implication of dependency of developing country on developed countries. In this condition, farmers are not the only party experiencing losses. Furthermore, the country cannot achieve self-sufficiency in food [12].

This study tries to discuss various social and economic problems faced by sugar farmers in Indonesia. It also tries to show various concept of profit of farmers that is able to help farmers achieve their welfare by initiating value of equity in it. The objective of this study is to explain the concept of equitable profit that can bring welfare to farmers and their families. This research is expected to contribute to the application of the concept of farmer's profit, which further can contribute to their welfare with respect to equitable value. Furthermore, this research can be used as a consideration for policy makers in creating pro-farmer policy.

MATERIAL AND METHODS

Making a new knowledge need some conditions such as empiricism and idealism that systematically arranged in a logical thought. Knowledge is born from coherency of empiricism and ratio. Knowledge paradigm basically based on rational empiricism and ethical empiricism. Rational empiricism is based on what have been seen and heard (physically) meanwhile ethical empiricism is based on coherency of mind and heart [13].

This study uses ethnomethodological approach, since the researcher is interested in understanding the way societies interact and communicate in their social lives according to their respective roles. In this approach, the researcher must be able to understand the meaning of objective roles through reflexivity [14]. Reflexivity is an important point where the researcher can understand the position of the object observed from two directions, that is the researcher's and the object's point of view, so the meaning is not limited on contextual meaning, yet historical [15].

This study uses the procedure of data collection through three methods; they are observation, indepth interview and literary study. First, observation is objected

to see the social reality of farmers directly that is related with the social condition. Seond, the indepth interview with the farmer is objected to examine reality that cannot be observed through senses and o confirm the observation result; the reality perceived by the soul and conscience of Javanese farmers that affects the choice of human behavior. Third, literary study is objected to refer the resut of observation and indepth interview. The object of this study is farmers in provinces of Java and PT. Perkebunan Nasional X (a state owned agricultural company).

RESULT AND DISCUSSION

The meaning of profit according to Adam Smith is the result of work share, capital, free market and market value influenced by wage rate, interest, colonialism, certainty of economic condition, size of company and governmental policy [16]. According to PSAK no. 1 (2009), profit is the total income deducted by expenses, excluding other comprehensive income components. SFAC No. 6 defines profit as the increase of equity or net asset from spending transaction on entities and all transactions and other events and the effect of entities' condition except the yield from the income or investment of owner. The profit received by farmers cannot be used to achieve their welfare. This is because the current view on the concept of profit still contains capitalistic components. The existing profit concepts are NFI, fair value and farm accounting.

The NFI of sugarcane farmer is expressed in rendemen with the share of 66 percent for the farmer and 34 percent for the sugar company. The share of rendemen must be based on the governmental regulation stated in Local Regulation No. 17 of 2012, which mentions the value expediency, innovation, accountability, honesty, empowerment, independency and sustainability. More than 80 percent of rendemen determiner is on farm. Sugar factories only extract the sugar cane maximally to produce white crystalized sugar as much as possible. The holder of the on farm is the farmer. If the rendemen (R) is low, the one who is responsible for the quality of

the sugar cane quality is the farmer. This position makes farmers the main actor on the low quality of sugar cane [17].

Farmers depend on sugar factory because system of work share found by Adam Smith (1723-1790) in the theory of thought revolution on the changes of feudalistic economic system that becomes the liberal capitalistic system takes place. Economic capitalist system is built based on capital share in order to gain maximum profit [18]

$$\{NFI = \text{Total Gross Output} - \text{input}\} \quad (1)$$

The formulation above, if it is broken down into the position of each party involved in the sugar industry, is as follow:

- NFI of smallholder (PR)

$$NFI \text{ of PR} = \text{Total Gross Output} - \text{input of PR} \quad (2)$$

The final profit of farmer is the total of gross output deducted from its input. The total gross output in this case is the selling price of sugarcane (HJ) in the form of rendemen of PR, which is 66 percent and the input is the expenses paid for seed, fertilizer, pesticide and land rent (if rented). The determiner of HJ is the sugar factory (PG), not the farmer. This will eventually affect the final profit of the farmer, if the proposed HJ is far from fairness.

- NFI of sugar factory (PG)

$$NFI \text{ of PG} = \text{Total Gross output} - \text{Input of PG} \quad (3)$$

The profit received by PG comes from the total gross output deducted by its input. The total gross output of PG is in the form of rendemen of PG of 34 percent and the input is the expenses paid by PG (for instance loan from bank for farmers' needs). If PG wants maximum profit, expenses of input must be pressed as small as possible.

- NFI of PTPN (Indonesian state-owned plantation company)

$$NFI \text{ of PTPN} = NFI \text{ PG}_1 + NFI \text{ PG}_2 + NFI \text{ PG}_3 + \dots NFI \text{ PG}_n - \text{Input of PTPN} \quad (4)$$

The profit received by PTPN is the total NFIs of PG deducted by its input. The total gross output of PTPN is

the total rendemen from all PGs belong to PTPN and the input is the accumulation of expenses from all PG, which is the farmer.

Therefore, PG is the burden of PTPN, so PTPN will try to press PG for higher profit. Further, PR is the burden of PG, so PG will press PR as low as possible for higher profit. Farmers will be the victim of PTPN and PG's greed, even though the burden of the farmer is not only the farming input but also the life of himself and his family. Therefore, the welfare of the farmer and his family also becomes the victim of this injustice.

The burden of smallholder is not comparable to the burden of PG and PTPN because smallholder has the position of the lowest burden in the process of profit achievement of the three. This condition can be depicted as follow:

$$E_3 < E_2 < E_1 \quad (5)$$

where:

E_1 = Burden of PTPN

E_2 = Burden of PG

E_3 = Burden of PR

The figure above describes that farmer is the lowest burden from the three relations of NFI chain, which means the smallest income from the process of rendemen seizure of national sugar cane is the income of farmer. The income of farmer cannot be compared to the income of PTPN or PG, which is observed materialistically. The income of farmer can be defined as the welfare fulfillment of the farmer and his family.

The sorrow of farmer is complicated by the presence of international standard policy of International Accounting Standards 41 (IAS 41) on agriculture, which introduces calculation of biological asset using fair value. It is the sum used to trade an asset among parties with interest and sufficient knowledge in a transaction in fair way (*arm's length transaction*).

On one side, fair value has the characteristics of relevancy and reliability, so it is appropriate in calculating biological asset. However, several articles mention the weakness of fair value calculation, that is improving volatility, reducing data reliability and creating manipulation subject [19-21]. Further, fair value is sensitive to market because the determiner of fair value is the active market, which can be dominated by certain parties with capitalistic interest. The referral of price to market mechanism can be a strong weapon to make the

farmer surrender and powerless. Again, the party with the risk of losses is the farmers. They do not have the power to affect the mechanism of market, unlike PG that can easily control the market, so the determination of fair value based on the market mechanism is spotted by capitalistic hands. Thus, the fair value mentioned in IAS 41 is unable to improve the life of farmers because fair value only emphasizes the process and it is controlled by the market chain, which is capitalistic in nature. According to Friedman [22], the meaning of capitalistic profit is the product of monetary policy and free market, so the profit is influenced by the result of collusion between capitalists and monopolists.

Farmers are supposed to be businesspeople able to produce high profit. Further, farmers are not supposed to be limited as good businesspeople that cultivate plants, but they should be able to make smart business transactions [23]. The view of farming as a business will lead farmers to apply accounting in their farming activity, so they can identify and manage their financial matter independently. This is the objective of Farm Accounting. It is the application of accounting in farming system to give information on the financial condition of the farm, especially in profit and asset improvement.

Farm accounting-based farmer will record all assets that have value in the farming process and all inventories farming that include: (1) *livestock*¹, (2) *machinery*², (3) *grand feeds supplies*³ dan (4) *real estate* (including well, warehouse, irrigation, dwelling, tiles). The all forms of farming activity include *bookkeeping*, *cost studies*, *farm cost accounting*, *farm records* and all accounting analysis techniques. Book keeping, besides its function in explaining asset calculation at the end of the year, identifies the income and the expense of farmers, so they are able to identify clearly the profit they receive [24]. However, the concept of farm accounting makes farmers act rationally and follow materialistic pattern [25].

The existing farmer profit calculations, from NFI, fair value, or farm accounting, are not able to address the problem of farmer's welfare, which is still far from materialization. It is because the all three only see profit from the perspective of rationality, which creates capitalistic profit. The concept of profit should reflect the value of justice that promotes farmer's dignity by appreciating his rights. Therefore, the concept of social justice profit is needed.

Social justice in this case is not understood in narrow economical definition, as understood by secularists. Justice in economy is not understood as equality of reward. Social justice in Islamic economy contains two important elements; they are equity and fairness. Equity implies indifference in profit sharing for all components of an entity, therefore it does not justify the condition where the rich and the poor living at the same time. Fairness implies the absence of reduction of rights for profit [26]. Both equity and fairness have the same core, in which rejecting discrimination. The thing that differs one person to others is his ability, neither his race nor his position. This is what will be achieved, the freedom of soul in placing values according to their places, denying excessive pressure and reduction of rights.

The values of justice that need to be forwarded in the knowledge of equitable profit concept based on social justice in the society are honesty, holiness and ethics. Those values will be the foundation for equitable conduct between farmers and the PTPN [27, 28]. The implication of honesty in business world is the emergence of trust that makes up every transaction, fair wealth distribution and reduction of corruptive activity [29]. When farmers and business people apply the principle of honesty, their partnership will not be intervened by the price and the profit received by the farmer is the pure profit, not the result of engineering on profit concept formulation by certain business interest.

Equitable social economy is achieved when consideration of ethics and moral exists in the activity of profit seeking [30]. When the government is fair in economy, the core of ethics and moral should be present in the relation between government and farmers, in which the government does not put farmer under pressure haphazardly. This is the equity that should be present, the one that does not rob the rights of farmer, which weakens them.

CONCLUSION

The conclusion of this study is that the concept of profit that helps farmers achieve their welfare is the concept of profit containing social justice that is not materialistic in nature as the perceived by the concept of NFI, fair value and farm accounting. Using the equitable values contained in the concept of farmer's profit, business people in agriculture should consider every organizational conduct and policy without ignoring the

¹ Live stock in farm accounting is all animal biological assets (cow, chicken, goat and horse).

² Machinery is the machine used by the farmer to support farming process such as tractor, hoe, diesel engine.

³ *Grand feeds supplies* are vegetal biological assets (sugar cane, rice, corn, wheat, etc.).

rights of farmers. Partnership between farmers and PTPN is no longer a subject of pressure and oppressed, but it is an equal partnership with the principle of equity containing the value of honesty.

The limitation of this research is that the researcher does not measure the effectiveness of equitable profit concept in helping farmers achieve their welfare. Furthermore, the formulary of equitable profit concept that can be applied is not available. The researcher does not see the lives of farmers from the perspective of Islam, which in fact largely influential in the life of farmers. Islam is not only seen as a religion but also culture and guidelines for farmer's life.

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