

## **The Ethics of Middlemen Business within the Small Scale Palm Oil Production Chain**

*Etika Perniagaan Orang Tengah dalam Rangkaian Pengeluaran Pekebun Kelapa Sawit Berskala Kecil*

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### **Abstract**

Middlemen are often accused as unethical and oppressing the farmers. Nevertheless, they remain essential to the value chain of agriculture product. This article aims to examine the ethics of middlemen within the small-scale agriculture sector based on the Theory of Moral Sentiment. This study employs a semi structured interview method with four palm oil fruit entrepreneurs (FD) in Sabak Bernam, Selangor. The interviews are guided by semi-structured questions. The findings indicate that the middleman business possess the element of rational sympathy and benevolence prescribed by the Moral Sentiment Theory. The execution of moral sentiment found in two areas - the commercial and social services. The commercial services consist of normal business activities such as purchase of crude palm fruits (FFB), farm management, selling of farm materials and transportation. Although the activities are fee-based, the smallholders gain benefits from the offered services. On the other hand, the social services are delivered through the provision of easy financial aids in the form of cash advance and/or credit facilities for purchased of farm materials. The provision of financial aids reflects the benevolence of FD who willing to sacrifice the potential of creating an extra profit. The smallholders gain benefits through the cash advance because they are provided in the absence of collateral, non-compliance of rigid loan application procedures and finance charges. Furthermore, the payback of the loan is flexible and taking into consideration the financial situation of the smallholders. Therefore, we conclude that FD business within this context is parallel with the requirement of moral sentiment.

**Keywords** middlemen, smallholder, benevolence, sympathy, moral sentiment

### **Abstrak**

Orang tengah seringkali dianggap tidak beretika dan menindas pekebun. Walau bagaimanapun, mereka kekal penting dalam rangkaian hasil pengeluaran pertanian. Artikel ini bertujuan meneliti etika orang tengah dalam sektor pertanian berskala kecil berasaskan Teori Sentimen Moral. Kajian ini menggunakan kaedah temubual semi berstruktur dengan empat orang peniaga buah sawit (FD) di Sabak Bernam, Selangor. Temubual adalah dipandu oleh soalan-soalan semi-berstruktur. Penemuan kajian menunjukkan perniagaan orang tengah mempunyai elemen simpati rasional dan kepemurahan seperti huraian Teori Sentimen Moral. Pelaksanaan sentimen moral ditemui dalam dua bidang iaitu perkhidmatan komersil dan sosial. Perkhidmatan komersil terdiri daripada aktiviti perniagaan normal seperti belian buah sawit mentah, pengurusan kebun, jualan material pertanian dan pengangkutan. Walaupun perkhidmatan tersebut berasaskan caj, para pekebun telah memperoleh manfaat daripada perkhidmatan yang ditawarkan itu. Selain itu, perkhidmatan sosial disampaikan menerusi pemberian bantuan kewangan mudah dalam bentuk pendahuluan tunai dan/atau kemudahan kredit untuk pembelian bahan pertanian. Pemberian bantuan kewangan memberi refleksi kepemurahan FD yang sanggup mengorbankan potensi mencipta keuntungan tambahan. Pekebun kecil memperoleh

manfaat melalui pendahuluan tunai kerana ianya diberi tanpa keperluan cagaran, tanpa pematuhan prosedur permohonan hutang yang ketat dan caj kewangan. Di samping itu, bayar balik hutang adalah fleksibel dan mengambil kira situasi kewangan pekebun. Oleh yang demikian dirumuskan perniagaan FD dalam konteks kajian ini adalah selari dengan kehendak sentimen moral.

**Kata kunci** orang tengah, pekebun kecil, kepemurahan, simpati, sentimen moral

## **INTRODUCTION**

The middlemen is an ordinary phenomenon in the marketing and distribution of agricultural produce. Middlemen act as the mediator between the farmers and the market. However, middlemen are often accused as manipulative and expropriating the farmers (Norliza, 2014, Utusan Online, 2014; Kosmo, 2016). They were often blamed for the poverty of the farmers in rural areas. Ironically, the middlemen remained significant to the value chain of small farmers, especially in developing and poor countries. For example according to Brandi et al. (2013), despite of paying low prices for purchase of smallholders FFB, most of the Indonesian palm oil smallholders have sold their FFB through middlemen. Thus, it lead to a question of why such situation exist despite the negative portrays of the middlemen? This study explores the potential reason to such doubt through an investigation on the ethical values of the FDs offerings.

Most agriculture systems in many countries are dominated by small-scale family based operators (Biéabe & Sautier, 2008; Chigusiwa et al., 2013; Quartey, Seidu & Hellen, 2012; Sandika, 2011). Besides, agricultural is one of the important livelihood alternatives for people in rural areas (Mitchell, 2011; Ahmad Rafliis et al., 2013). In most developing and poor countries, the agricultural activities have been conducted within unproductive scale and exposed to challenges as follows (Ali-Olubandwa et al., 2011; Dev, 2012):

- i. Lack of awareness among the farmers about the good/effective agricultural practices and technical skills;
- ii. Lack of knowledge about the markets among farmers;
- iii. Difficulty of obtaining good seeds and uncertified seeds;
- iv. Difficulty of getting financing and credit support for capital expenditure and agricultural inputs, thus leading towards low agriculture productivity; and
- v. Limited skills and education level among farmers lead towards low agricultural productivity.

As a result, the middlemen are expected to play significant roles in the operation of the small farmer's production value chain.

This study has been developed around the idea of Smith Moral Sentiment Theory related to the rational sympathy of impartial spectators (middlemen) and benevolence, operationalised within the context of free market environment. The study emphasized on the ethics because the middlemen issue involved treatment towards other human being namely the rural farmers or smallholders. As far as this study is concerned, the scope of the investigation is limited to the nature of the services provided by the middlemen and not on the mechanisms of particular services.

## **MIDDLEMEN: TYPES AND ROLES**

Middlemen refer to the individual or firms responsible for the transferring or moving of the agricultural produce from the point of production to the point of consumption (Sandika, 2011; Syahrin et al., 2015; Muhammad Ashraf & Arif Raza, 2016). The middlemen act as the bulk purchaser of farmers produces and resell the items to other sellers and/or final consumers in the market (Chigusiwa et al., 2013). Hence, middlemen are the key to success for most rural farmers and have control on the economic behaviour of the farmers (Heliawaty et al., 2015).

As far as middlemen are concerned, there are few categories of middlemen based on their operation scopes in marketplace (Syahrin et al., 2015). The category of middlemen are as follows:

## 1. Merchants' Middlemen

Merchants' middlemen refer to retailers who purchase products to be sold to final customers. The middlemen take the role as the provider of various products at a single location and assist the customers to obtain products from scattered multiple locations. In addition, this type of middlemen can be referred to the wholesalers that sell products to other retailers or wholesalers for industrial usage. The merchant middlemen gain profits from the differences between the selling and purchase price of the particular items.

## 2. Agents Middlemen

Agents middlemen play the role as an agent that search for potential buyers and/or to negotiate a contract on behalf of the particular sellers or buyers. They provide negotiating and bargaining services, especially for buyers or sellers who do not have the knowledge or expertise in particular areas. These middlemen usually refer as the broker or commission men and they receive payment in the form of a sales commission.

## 3. Speculative Middlemen

Speculators refer to the middlemen that gain profit from the differences between the purchase and selling prices of particular items in the marketplace. They purposely purchased the items for short term and aimed to sell it at a certain price in the future. Speculative middlemen gain short term profits from price fluctuation.

## 4. Processor and Manufacturer

This type of middlemen has expertise in creating additional value to the basic commodities such as modifying the items to preserve longer life cycle or usage. These middlemen have skills to influence the consumer decision through the element of packaging, branding and promotional activities.

## 5. Facilitating Organizations

The facilitating organizations facilitate the market activities through the provision of physical facilities to assist both buyers and sellers. This middlemen offer activities such grading, sorting, arrangement and transfers of payment between the involved parties. This type of middlemen obtained profit from those who had used their services.

As far as agricultural sector is concerned, there are a few literatures which have discussed the role and contribution of the middlemen in the intermediary activities (Barिताux et al., 2006; Sandika, 2011; Van Driel, 2003). According to Van Driel (2003), the dimensions of middleman involvement in the intermediary activities had composed of place, time, quantity and quality. Table 1 shows the dimensions and the involvement of the intermediary roles of the middlemen in the agriculture value chain.

**Table 1** Dimension and intermediary activities in the market supply and demand process

| No. | Dimension | Main intermediaries activities                      |
|-----|-----------|---|
| 1.  | Place     | Transportation                                      |
| 2.  | Time      | Storage   |
| 3.  | Quantity  | Accumulation and grading                            |
| 4.  | Quality   | Processing, sorting, <i>assorting and screening</i> |

Source: Van Driel (2003)

Barिताux et al. (2006) discuss the role of middlemen within the frame of transaction cost theory. The positive aspect of middlemen is their role has reduced the transaction cost for agriculture producers. The transaction costs comprised of information and search cost, negotiations cost as well as monitoring and enforcement cost. The middlemen allow agricultural producers to concentrate merely on the producing/planting tasks, while the searching of market opportunities will be on the middlemen's responsibility. A study by Enete (2009) also indicates a positive role of middlemen to assist the marketing

of cassava (a basic staple food) in the state of Africa. Based on Enete finding, the price of cassava products are more stable in Nigeria than in other place because of the more elaborate involvement of middlemen. Enete (2009) proved that the mediation of marketing intermediary (middlemen) between producers (the small farmers) and consumers, has improved the efficiency as well as reduced the distribution costs.

Sandika (2011) highlights that middlemen operation has actually absorbed the risks inherent in agricultural produce on behalf of the farmers. Most agriculture produce exposed to a short life cycle. The middlemen took the responsibility to accumulate and stores the agriculture produces from many small producers and prepare it for sales to the final customers. Besides through the activities of middlemen, the commodity price become more stable due to the unexpected nature of the supply of commodities in the marketplace (Sandika, 2011). Furthermore, the middlemen do contribute to social empowerment of the rural farmers through provision of in-kind aids as well as emergency financial support for the needy farmers (Quartey et al., 2012). According to Stanton (2000) and Brandi et al. (2013), the intermediaries provide valuable services to the farmers who have no other means to transport their output to the market. Thus, the intermediary is a good example of local agribusiness that should be recognize fairly by the society.

Despite the positive roles, there are also studies that look into the negative side of the middlemen such as Muhammad Ashfaq and Arif Raza (2016) and Mitchell (2011). The negative description mostly arises due to some ethical considerations. For example, Muhammad Ashfaq and Arif Raza (2016) investigate the ethical issue of the middlemen in Pakistan who had exploited the local farmers. Based on their study, the Pakistanian farmers have limited access to market, thus they rely heavily on the middlemen expertise and services. The farmers also have limited financial resources and become dependent on credits from the middlemen. These constraints have made the middlemen to become extremely powerful and able to exercise negative influence on the farmers especially in terms of price. Mitchell (2011) also found similar findings throughout his experimental study. His study indicates that access to market information, would create greater tendency for the farmers to obtain a fairer and realistic prices from the middleman.

## **THE ETHICAL EVALUATION: MORAL SENTIMENT THEORY**

Back in 1759, Adam Smith had proposed the idea of Moral Sentiment Theory. According to Smith, Moral Sentiment Theory serves as the basic rules governing all human activities including the economic behaviours (Smith, 1991). Nevertheless the Moral Sentiment Theory had been neglected by most proponents of his latter work proposed in *The Wealth of Nations* (1776) (Gramp, 1948). The Theory of Moral Sentiments provides a base for the ennobled of man's nature; whilst *The Wealth of Nations* deliberates the political-economic framework within which individual could prosper materially and morally (Herbener, 2002). According to Smith's Moral Sentiment Theory, human beings are identified as moral creatures by nature. Thus, human can feel the misery of others and led towards moral perfection in all human activities and conducts (Macfie, 1959). The emotion is known as sympathy. He further described that rational sympathy is the beneficial propriety emotion that lead man to solve the misery of other people. Rational sympathy can be achieved through reasoning in a specific context. This means that the individual need to be in or able to observe the specific context and proceed with the thinking process in order to initiate the feeling of rational sympathy. The person would proceed to mitigate the burden of others which simultaneously allow the attainment of his/her own private benefit. For example, knowing that most working people are unable to prepare lunch at home, the rational sympathy person come with solution of providing food services or restaurant. At the same time, the services are provided by certain charge (price) and become a source of profit for the particular person. At the same time, the services brought benefits to the people who unable to prepare lunch on their own. Thus, the rational sympathy emotion is in line with the human self-interest. It recognizes the self-interest as well as others' interest to initiate the specific productive actions.

As far as practicality is concerned, the free market mechanism and market competition allow for the integration of Moral Sentiment Theory and *The Wealth of Nations* ideas (Herbener, 2002). The free market situation will ensure that ethical conduct is implemented in business transactions (Herbener, 2002; Smith, 1991). Based on Moral Sentiment Theory, the real happiness is to watch other people feel happy through the choice of decisions/actions taken by the particular person. As a result, the concept of economic man will be in parallel with the concept of a prudent man. The economic man assumes that human beings are rational,

thus they will align that all their conducts with the expectation of potential customers and society for their long term profit and survival. Thus, the benevolence concept is operationalise realistically through the nature of intense competition among business people.

Benevolence of the capitalist means to see others gain satisfaction from the delivered product/services. In order to satisfy the customers, each sellers within the context of a perfect competition environment are forced to supply whatever the customers want, to drop the price of goods as close as possible (in FD case is to increase the buying price as high as possible) and other strategies meant to attract the customers attention. Eventually, this situation bring advantages to the customers and society (pursue of other people interest). Meanwhile, due to the customers satisfaction, the profit of the business will now increase (pursue of self-interest). This is parallel with the famous Adam Smith quotes on the concept of benevolence within the context of free market and capitalist system (Book 1 Chapter 2 of Wealth of Nation):

*“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens. Even a beggar does not depend upon it entirely....”*

As far as market competition is concerned, the Porter 5 Forces Model has explicitly defined basic forces that shaped the competitiveness structure of any marketplace (including the agribusiness market). The five (5) forces consist of follows (Porter, 2008):

- (a) The bargaining power of suppliers (the farmers or the upstream participants);
- (b) The bargaining power of the buyers (the processing mills or the downstream participants);
- (c) Threat of new entrance (newcomers who enter the agribusiness market);
- (d) Threat of substitute products/services (equivalent products or services which able to replace the function of particular products/services);
- (e) Rivalry among existing firms (existing middlemen within the same market).

The local agribusiness in developing countries usually refer to the typical small to medium scale entities in rural areas that either process raw agricultural materials or provide marketing, transport, and other services to small local farmers (Stanton, 2000). Thus, the definition includes middlemen which facilitate the marketing of agriculture produce among the smaller producers. On top of the basic Porter competitive forces, Olson and Boehlje (2010) added additional forces to explain the nature of competition within an agribusiness market. Based on Olson and Boehlje (2010) the technology also plays important role to determine the competitive intensity and the attractiveness of any agribusiness market. The requirement of technology investment within the particular agribusiness, can reduce the attractiveness of the market for new comers. Furthermore, Olson and Boehlje (2010) include other driver factors such as the government policy, regulations, and taxes as influencing factors of the agribusiness market attractiveness. The competitive forces represent the pragmatic reflection of the “invisible hand” mechanism that inevitably lead to the “benevolence” disposition of self-interest human beings.

## **METHOD**

This case study employs interview method with four palm oil fruit bunch dealers (FD) in Sabak Bernam, Selangor. A semi-structured questions were developed to guide the interview session. The interview session took approximately two hours per FD and had been conducted at the FD business premises. The selection of FD was made thorough the non-probability sampling namely the purposive sampling. The interview data were analysed through the thematic analysis in order to extract relevant themes. The profiles of the informants are shown in Table 2.

**Table 2** Informant profile

| No. | Respondent | Year Commencing as FD | Education Level                       | Race    |
|-----|------------|-----------------------|---------------------------------------|---------|
| 1.  | A          | 1995                  | Malaysian Education Certificate (SPM) | Malay   |
| 2.  | B          | 2003                  | Lower Certificate of Education (SRP)  | Chinese |
| 3.  | C          | 2007                  | Bachelor degree                       | Malay   |
| 4.  | D          | 2000                  | IKM certificate                       | Malay   |

## RESULTS AND DISCUSSION

Based on the nature of our respondents' operation, the FDs can be classified as the merchant middlemen and facilitating organizations. Generally, the FDs will purchased the fruits from the smallholders and sell it to the processing mills. The FD becomes the intermediaries between the smallholders and the mills. In performing the task, the FD simultaneously deliver the facilitating role of providing transportation of FFB, inspection and grading FFB and farm management.

Table 3 indicates two themes of FD services offered to the local smallholders. Based on themes in Table 3, two types of services are provided, namely the commercial and social based services. This finding is parallel with previous studies such as Van Driel (2003); Baritoux et al. (2006); Sandika (2011), Chigusiwa et al. (2013); Heliawaty et al., (2015); Stanton (2000), which had recognized the significant role of middlemen within smallholders value chain management. The varieties of services reflect the implementation of rational sympathy and the benevolence of the local FDs.

**Table 3** FD services provided to smallholders

| No. | Themes: Commercial Services   | Interview transcripts   |
|-----|---|---|
| 1   | Logistic & transportation services  | <p>Respondent A</p> <p>"...we provide services but with a certain charge such as transportation, collecting the fruits from their farm, we charge them RM 20 per tonne...the smallholders no need to do anything, they just watch us doing the task".</p>   |
| 2   | Farm management services  | <p>Respondent A: "I help them from the labour (workers) until to the crane"</p> <p>Respondent B:</p> <p>"The farmers don't have many children. So who wants to look after the farms? Besides, their children did not stay here. If we observe, no local people wants to this difficult and dirty task in the oil palm plantation. They come to visit their parents once a while, so won't go to the farm to do all those dirty jobs. All these done by the foreign workers. Most of the farmers are getting older and unable to do the on their own..."</p> <p>Respondent D:</p> <p>"plucking, fertilizing, pruning, provide seeds, some even as us to manage everything from A to Z, I think there are 10 of them who ask us to manage their farm on behalf of them (with specific charges)"</p> |
| 3.  | Sell of agriculture inputs such as seeds, fertilizer and pesticides (cash and credit) | <p>Respondent A:</p> <p>"We provide credit for fertilizer and pesticides purchase. We deduct it from sale proceed when they sell fruits to us..."</p> <p>Respondent D:</p> <p>"plucking, fertilizing, pruning, provide seeds, some even as us to manage everything from A to Z, I think there are 10 of them who ask us to manage their farm on behalf of them"</p>   |

- |   |   |
|---|---|
| 4. Farm management                            | Responden D:<br>“She is a doctor...She did not live here. The farm actually belongs to her late father and her father gave the farm to her. So we help to manage the farm. She only comes back once a while to collect the money. I think today she’s on leave (referring to a woman in the 30s who arrive at the premise during our interview session). There are about 10 like her (meaning that other small holders who use the farm management service).  |
| 5. Themes: Social aids advancement/ cash loan | Respondent A:<br>“...when their children wants to go universities, we look left and right, we give them..want to go for pilgrimage, not enough money, we also give them. Most of the time we give cash”<br><br>Respondent B:<br>“I give loan to them. I treat it as debt. No interest charged. During their emergency they come and borrow from us...most of the time for during the back to school season..”<br><br>Respondent C:<br>“Sometimes they want to use money. At night they call to borrow. I have so many cases. There are 2-3 persons who used to borrow repeatedly. When they had settled their previous loan, they will borrow again. That’s how things work...” |
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Further analyses are divided into 3 inter-related sub-headings such as follows:

### **Commercial Services**

The commercial services can be segregated into five (5) type of services which are FFB trading; logistic and transportation; farm management; selling of agricultural inputs and farm management. The trading (purchase and sell) of FFB is the basic and the most important service provided by all FDs. Generally, all FDs had established their business primarily to perform the purchase and selling of FFB. Later, the FDs expand into other services in order to accommodate the emerging needs/problems of the local smallholders.

Apart from the main commercial service of the purchase and sell of FFB, farm management is becoming an important commercial service by local FD. The management of farm is becoming important because most of the smallholders in the area are unable to manage the farm on their own due to age or/and constraint of workers. There is also situation in which the farm owner had migrated to other places. As a result, they hire FD to manage the farm and collect the proceed of sale at a certain point of time (Table 3).

Besides, FD provides transportation services to move the FFB from the farm to the FDs premise with some charges. This service is important because most of the smallholders do not own a transport to move the FFB from farm site. It is also inefficient for the smallholders to rent/charter a truck for transporting a relatively small amount of FFB from the farm to the processing mills. Moreover, the distance of oil palm mills and the smallholder’s farms are quite far. The four informants told that they charged the smallholders with RM 20 per tonne for the transportation cost. On the other hand, the FDs also supply the farming materials such as fertilizer, seeds, and others on cash as well as credit basis to the smallholders. As a result, the commercial services have been in line with the moral sentiment theory of the rational sympathy. Without those services, the smallholders will faced difficulties to market the FFB, thus limiting the smallholders’ income capacity.

The local FDs have accommodated their services to fit the local smallholders’ problems. The smallholders demand for such services and willing to pay for the offered services. This reflects the pragmatic execution of rational sympathy of both parties, the FDs as well as the smallholders. The smallholders accept the social fact that FDs have sacrificed their resources and accept the calculated risks

in order to provide the services. Thus, the FDs deserved a compensation due to their sacrifice to fulfil the needs of the local smallholders. Meanwhile, the FDs observe the problems of the local smallholders and optimizing their resources as well as entrepreneurial skills, to deliver the necessary services.

### Social Services

Under the social based services (refer Table 3), the FD has become an alternative to obtain financial aid/support among the local smallholders in the time of emergency and hardship. This finding supports Quartey et al. (2012) who found that middlemen contribute to the social benefit of rural farmers. This kind of support helps the smallholders to overcome their financial hardship. The evidence to support FDs social service are derived from the interview responses:

**Respondent A:**

“...(If they) want to borrow (money), (I just give) on the spot. I don’t mind (to lend them) at any time when they need...”

**Respondent B:**

“...During (their) emergency, they want to borrow. I must give. Most of the time for their children back to school season....”

**Respondent C:**

“Sometimes they want to use money. At night they call to borrow. I have so many cases. There are 2-3 persons who used to borrow repeatedly. When they had settled (their) previous loan, they will borrow again. That’s how things work...”

**Respondent D:**

“If, let say they ask for help, money or anything else, we usually help...If they want to borrow money (from us) they don’t need to fill any forms. We simply give based on trust..that’s all. Just write their name in the (record) book”

Based on the interviews, the FDs have become the informal institutions to provide soft loans for smallholders. Thus, it reflects the rational sympathy of FD towards the misery of the smallholders. Table 4 further describes the themes of the FD credit practices based on the interview transcript.

**Table 4** FD credit practices to smallholders

| No. | Themes  | Interview transcripts   |
|-----|---|---|
| 1.  | Soft Loan/Credit  | Respondent A:   |
|     | <i>Description:</i> No application screening or rigid and time consuming application procedures such as in the formal banks or financial institutions or vendors. The loan application can be made at any time according to the needs of the small holders. | “...Want to borrow, (I just give them).. on the spot.....my concern is just pay back the loan. I deduct it from their sale proceed. Like the bank SI standing instruction. You sign for the repayment. small, I just deduct small amount (as payback payment) about RM70..they still have many balance for their food and other expenses. ” |
| 2.  | Free from Rigid Loan Procedures/terms   | Respondent B:   |
|     | <i>Description:</i> The small holders do not have to provide any collateral, reference /guarantor and no interest charge.   | “All together the debt amounted to RM 100 thousand. They borrow RM 1 thousand, 3 thousand at one time, then they run away. Some borrow a lot, but pay back in small amount. We accept that too. (Some) borrow money from us, but he sells his oil   |

|  |  |
|--|--|
| <p>3. Flexible Repayment (In terms of Amount and Payback period)</p>   | <p>palm fruits to other fruit dealers. So we cannot deduct from the sale proceed. This is not a formal loan [that] we can charged them at court for breach of payment. We don't have any agreement.. so we cannot bring to court. Besides, we don't charge any interest"</p>   |
| <p>Description: re-payment of credit take into consideration the smallholders financial capacity and situation from time to time and base on discretion.</p> | <p>Respondent A:<br/>         "They owe today, we will look to their future income (for repayment purpose). There is certain percentage to debt repayment, for their kids schooling purpose, to buy food. We only deduct small percentage from the total of their sale proceed. We give specific term, let say they take 6 bags of fertilizer for 3 acres of farm. He can get 5 to 6 hundreds ringgit. We only deduct RM 70 from each sale. But if they ask us to deduct more than RM70, let say RM 150 we will deduct as they wish. But, they still have some balance for their usage.</p> <p>The compulsory amount is only RM 70. That's all at each time they sell the fruits to us. I don't want to hear any reason for not paying because I have been very flexible"</p> <p>Respondent B:<br/>         "...Even they pay in small amount that would be enough for me. As long as they pay, that's all.."</p> <p>Respondent C:<br/>         "...each time I only deduct RM 50. For example, if the fruit sale is RM 100, they will get cash RM50 because we deduct a part of it as the repayment of their debt or credit purchase"</p> |

Based on Table 4, the soft loans (either cash or credits of agriculture inputs) are provided without collateral, rigid procedures and approval, and with flexible payment arrangement. Thus, it shows the element of rational sympathy and the benevolence of FD through the informal loan facilities. The credit facilities served as the complementary service in order to attract smallholders to sell their FFB only to particular FD. It can also be referred as a strategy to ensure loyalty and promote long-term relationship with local smallholders.

### Business Challenges

Based on the question about the (1) cost for operating the oil palm dealers' business; and (2) business risks, the summary of business challenges encountered by the FDs is shown in Table 5.

**Table 5** Challenges in fruit dealer business

| No. | Themes of challenges   |
|-----|--|
| 1.  | Transportation cost including maintenance and truck rent   |
| 2.  | Problem with workers and cost (direct and indirect) of obtaining foreign workers                       |
| 3.  | Licensing cost including business licence and other licence related to the oil palm trading businesses |
| 4.  | Natural depreciation of fruits or perishable of fruit prior sale to the processing mills.              |
| 5.  | Penalty risk if the fruits do not meet the specification standard.                                     |

Based on information in Table 5, the process to deliver services involved enormous costs and exposed to various uncertainty. Therefore, it is too simplistic to perceived FDs as making profits by expropriating others. If they were only to take care of their self-interest, they would be better off to serve other profitable market rather than serving the smallholders' niche. As a result, profit is not a "must have consequence" for FDs business as validated through these interview responses:

**Respondent A:**

"I had once didn't get anything from this business for almost 5 years. Nothing during that 5 years. 20 years ago when I started this business, there were not many palm oil plantation here. Very few. The FFB supply are very uncertain. Less FFB means less income. But the expenses are the same. You must have at least 4 workers (to run this business): 1 clerk, 1 manager, 2 drivers. I used to drove the truck myself. And I didn't get anything for 5 years. My late father once suggested me to stop (this business) and find other alternative to earn stable livelihood..."

**Respondent B:**

"Some of these smallholders...they ask us to manage their farm. We put the fertilizer, look after the trees and so on. However, as they get the FFB, they sell it to others FDs. Just imagine that. What can we do? We cannot "take back" the fertilizer or cut the palm oil trees. We didn't get anything in that case".

**Respondent C:**

"the processing mill will choose from which FDs they want to buy the FFB. However, we as dealers have no chance to choose the mills. If they don't like us, we cannot sell to them. Have to find others mills somewhere else..."

Besides, the existence of FDs permits the transfer of costs and risks of handling the FFB from the smallholders to FDs. Another challenge encountered by the FDs is the competition from other local FDs. Most of the FDs premises are located close to each other, thus it creates a slightly intense competition among the FDs, as stated in their responses:

**Respondent A:**

"I am the second (person) who operated in Sabak Bernam. But nowadays, there are so many of us here. This means the competition in this area is becoming more intense..."

**Respondent B:**

"Must collect (the fruit) fast. Once they (smallholders) called us, we must go (there) as soon as possible. Although (the fruit) is not so much, it does not matter. Or else, other dealer will come and collect it. (We) Must act fast"

**Respondent D:**

"Nowadays there are too many FDs here. My customers are reducing compared to previous. Because they can go to other FDs here. Last time, there were about 200 (of smallholders) sell their fruit here. Now, we only have about 100 customers. They have many choices now...not as before"

The intense competition has raised need for the FDs to find a competitive strategy to beat their competitors' offerings. Thus, the FDs operations are naturally force by the invisible hand to provide good services and competitive prices in order to beat their competitors. This fact can be understood from these interview responses:

**Respondent A:**

"(In order to ensure not losing the customers) the most important is capital. You must have sufficient capital. Must provide good services. If not, they will sell to other fruit dealers."

**Respondent B:**

“You know...to certain extent there are some fruit dealers who do not charge for picking up the fruits from the farmers’ location. See...the competition has grown to that extent. So we have to really compete to get the customers...”

Based on the entire analysis, the role of fruit dealers is ethically justified based on the evaluation of FDs’ services in relation to Smith Moral Sentiment Theory. The operation of the FDs business reflects the elements of rational sympathy and benevolence as interpreted within the scope of Adam Smith’s concept of moral sentiment, free market and the “invisible hands”. This finding indirectly provide a universal explanation pertaining to the typical relationship of “middlemen-small farmers” in rural areas or developing countries. As far as moral sentiment is concerned, this study to certain extent has proved that FD businesses are in line with the pragmatic implementation of rational sympathy and benevolence, taking into consideration the constraint of self-interest as persist within all human beings.

As mentioned by Ali Olubandawa et al. (2011) and Dev (2012), smallholders usually operate with some deficiencies. Therefore, the smallholders have limitations to self-market the FFB efficiently and effectively. The middlemen (FDs) are actually helping to solve the misery of smallholders through the forces of a pragmatic sympathy and benevolence. As far as this point is concerns, the middlemen business is in line with the prescribed normative ethical values. Nevertheless, as the point highlighted by researchers such as Muhammad Ashfaq and Arif Raza (2016) and Mitchell (2011), the negative consequence potentially arises in the absence of a perfect competition. The competition serves as the invisible mechanism to provoke disposition of “benevolence” among market players as well explained by Porter (2008).

## CONCLUSION

The middlemen often accused as expropriating and manipulating the farmers. Ironically, middlemen remained important in the value chain of agriculture based produce especially among rural farmers. This has imposed a question as to why that happened. Thus, we have initiated this study purposely to empirically understand the ethical basis of the middlemen’s business. Based on our finding, the fruit dealer can be categorized as the merchant middlemen and/or facilitating organizations. This is because the FD operates in such a way that they purchased the FFB from the small holders at a standard price and selling the FFB to various processing mills. Besides, the FDs also provide other services to accommodate the problems of local smallholders. Ultimately, our findings indicate that the establishment and operations of FD business is in line with the ethical principle of moral sentiment theory in both of the commercial and the non-commercial services.

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