

Farm Diversification: Drivers, Barriers and Future Growth Potential

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Summary

Family farm businesses throughout Europe are facing new economic, environmental and social challenges. In order to deliver a more resilient primary agriculture sector national and regional governments are identifying mechanisms to support farm businesses to adapt to these changing demands. This qualitative study, explored the drivers of and barriers to farm diversification and its potential as a strategy to make farms more sustainable. Although there are a range of farm diversification strategies being pursued regionally, farm diversification is under exploited as an opportunity to achieve additional household income. Areas considered to have the potential for growth included, agri-tourism, care services (including social farming), professional services and developing artisan food products. Beyond the need to generate new income sources, creating employment for other family members was considered an important motivation. Those factors identified as constraints to diversification included internet access, planning, business rates, support around skills development, networks and a farmer's own fear of failure. For smaller scale, family farm businesses located in more marginal areas, there is a need to identify a range of policy levers which support local farming systems and capture the multifaceted nature of the products and services that these farm businesses could provide and may be asked to deliver in the future.

Introduction

Throughout Europe, the current discourse around future agricultural policy is increasingly focused on developing resilient farming systems (European Commission, 2018; Meuwissen, *et al.*, 2019). Delivering policies that promote resilient and sustainable farming systems alongside supporting wider rural economies is a challenge requiring a multifaceted approach due to the diversity of farm production systems, farm households and rural spaces (Acs *et al.*, 2010; Lobley and Butler, 2010). Farm family businesses are increasingly required to become more

productive in terms of managing resources, alongside maintaining food quality while implementing good environmental and animal health practices (Shepherd *et al.*, 2018). Historically, in response to both market situations and successive policy interventions, family farms have pursued a range of strategies to improve and sustain their economic, environmental and social resilience. For some, particularly those in the arable and dairy sectors, intensification and specialisation have proven to be a viable approach. For others, particularly those farming on a small scale in areas of disadvantage, pluri-activity and diversification as an extension of on-farm and off-farm business activities have provided a more feasible strategy (Boncinelli *et al.*, 2017; Alem *et al.*, 2019).

The future agricultural and rural policy agenda throughout Europe continues to face many challenges. Developing policies that support farm businesses and households to identify sustainable strategies is a key priority for governments across the EU as well as the UK.

Previous studies have shown that farm-level diversification, has the potential to increase farm household income (McElwee and Bosworth, 2010; Morris *et al.*, 2017). Diversification also provides an opportunity for farmers to maintain their standard of living and farming lifestyle in the face of changing political, economic and environmental conditions (Morris *et al.*, 2017). Indeed, balancing the goals of business profitability and maintaining a farming way of life have been shown to be important for farmers when weighing up the financial and non-financial benefits that farming presents for them and their families (Howley, 2015; McFadden and Gorman, 2016).

There are differing theories in relation to what drives and stimulates entrepreneurial activity and farm diversification. Previous research found that individuals are either pushed into a new business activity by job dissatisfaction where they are “necessity driven” or pulled into a new business activity by job and life satisfaction where they are “opportunity driven” (Ilbery, 1991; Amit and Muller, 1995; Hansson *et al.*, 2013). The literature has also indicated that incorporating the knowledge, opinions and expertise of key stakeholders has become important in the policy development process (Fischer *et al.*, 2014). Therefore, from a policy development perspective, this study focuses on the contribution of key stakeholder involvement in informing policy development and how their input adds to the overall policy development process. The primary research question centred on what key industry experts consider the main barriers and

drivers for developing farm-level diversification enterprises; and what are the areas for potential growth.

The research was undertaken in Northern Ireland (NI), a region within the United Kingdom, consisting predominantly of small and medium sized farms. These mainly family run businesses are characterised by intergenerational succession and inheritance and face high levels of variability in their income generation due to agricultural market volatility (DAERA, 2018; Jack *et al.*, 2019). These farms are characteristic and typical of many family farms across Europe who are facing similar challenges in determining their future viability. Northern Ireland has a low level of farms engaged in some form of diversification (11 per cent) of which the main forms of diversification are renewable energy (37 per cent), agricultural contracting/haulage (31 per cent) and tourism (11 per cent) (DAERA, 2017).

Methodology

The stakeholders interviewed were selected on the basis of their profile and experience of working in or their involvement with the NI farming and agri-food sector and their professional contribution to it. Seven organisations representing agricultural educational providers, farmers' union, academia, rural support agencies, an agricultural research levy body, a consultant and a food and drink sector support organisation participated in the interviews. The selection of those involved included representatives from organisations who have either a stake in farm diversification as a policy issue and/or could be impacted by such a policy. Individuals who were considered to have significant professional expertise in the areas of business start-ups and rural development were also included. Overall, nine individuals from seven organisations were interviewed. The interviews took place between February and April 2019. The interviews were semi-structured containing ten open ended questions designed to elicit the opinions of the stakeholders. The ten questions were focused around areas of potential business growth and the general drivers and constraints that farm families face in establishing farm diversification businesses. The aim was to identify and explore potential future policy levers to encourage entrepreneurship and diversification at farm-level. Each interview lasted between sixty and ninety minutes. Two researchers attended each interview which was recorded and transcribed. The responses were evaluated thematically, (Holloway and Todres, 2003), as a means of

identifying, analysing, and reporting patterns or themes within qualitative data (Braun and Clarke 2013).

Drivers of diversification

The majority of stakeholders considered overall dissatisfaction with farm incomes and profitability within the primary agriculture sector as important drivers of diversification; including the volatility of incomes on a year on year basis. Furthermore, stakeholders highlighted that farm businesses who choose to diversify often do so in order to support other family members and increase its attractiveness for the next generation and a future successor; from both an income and lifestyle perspective.

“A family member joining the business may instigate a desire to diversify as a way of securing an income for the new partner(s) in the business.”

In line with previous research, uncertainty around future agricultural policies, particularly support for the sector post-Brexit, was identified as something which stimulated farmers' interest in diversification as a means of augmenting their farming incomes. Those interviewed indicated that the success of a diversification business largely comes down to the person that is leading the project, in terms of their own skills and how determined they are to make it work.

“It's the person, at the end of the day, if they are determined to make it work and are willing to go and get support and assistance where they need it, that's the key to any business, is that person's attitude.”

In summary, stakeholders viewed farm diversification as an important adaptive strategy for farm businesses providing the opportunity to generate other sources of income, not just for the farmer and spouse/partner but also for future generations. Beyond the economic incentives, the findings reflect at a regional and cultural level, the aspiration to maintain a farming family lifestyle which extended also to the next generation.

Barriers to diversification

The research aimed to identify the key barriers that are considered to prevent farm businesses from engaging in diversification. Stakeholders identified government regulation around planning permissions; that is being able to proceed with building a new or altering an existing building to accommodate a **farm-based** diversification enterprise, as an important barrier to developing businesses in rural areas.

“One of the main constraints is planning and the ability to get planning for diversification in the countryside.”

In relation to the development of small food businesses in particular, the struggle to secure planning permission and meeting legislative and regulatory requirements constrained diversification projects, in some instances forcing businesses to change their initial plans and to locate the business away from the farm; either in a local business centre in a nearby town or city. Stakeholders indicated local products that aimed to build a reputation around being ‘farm-based’ were undermined by such regulation and this impacted on authenticity from a marketing perspective in terms of delivering a farm produced quality product. **Additionally, stakeholders** overall indicated that this approach did not support the development of innovative local food supply chains as it detracted from the origin and appeal of a genuine farm produced product. Moreover, stakeholders indicated that business rates (a form of local authority taxation) that are applied to diversification projects were a barrier to potential diversification projects. This is because farm buildings and agricultural land are exempt from business rates; **however, diversified farm businesses do have to pay business rates, on the diversified aspect of the business which adds to overall business costs.**

A number of stakeholders drew on the individual characteristics of farmers themselves as a hindrance to being more entrepreneurial and to engage in farm diversification activities. This was highlighted in two particular ways; firstly through a lack of confidence in the farmers own ability to start and create a successful business and secondly, the perception among the wider farming community that somehow diversification into a non-farming activity will be viewed by peers as having given up and failed in farming. Stakeholders considered that this highlighted from a policy perspective the need for the industry and government to work **together to promote**

successful farm diversification businesses as exemplars in order to provide peer to peer support to encourage future engagement.

“I think there's also that reluctance in diversification because it's seen as admission of failure, defeated in farming.”

In the context of supporting farm diversification through the regional Rural Development Programme, stakeholders universally indicated that the current targets focused on employment creation, increased levels of turnover and developing export markets were viewed as unrealistic in relation to measuring success and subsequently deterred farmers from applying to such funding schemes. **Instead,** interviewees were of the opinion that the metrics upon which farm diversification businesses should be assessed, in relation to successfully receiving funding support, should focus on the potential that the enterprise has in contributing to the future sustainability of the farm family business and household.

“Their (the governments) focus on exports, or their focus on turnover, or their focus on scale, these are micro-businesses... if a local person identifies what a local need is, it may not be new, it may not be innovative, but there's still an opportunity there.”

Stakeholders also expressed concern that not enough recognition was being given to those projects meeting a gap in a local market with preference given to projects focusing on export markets under the current Rural Development Programme. **Consequently, it** was considered that potentially viable and innovative projects were being overlooked. Furthermore, it was considered that diversification enterprises, particularly those initiated by farm-based females, were often perceived as 'hobbies' and not recognised as farm diversification in a real sense.

As a solution, from a policy perspective stakeholders proposed that grant assistance should be offered at tiered levels, allowing for lower risk small scale projects to access smaller amounts of funding. **A number of the interviewees also suggested micro-loans as something which could benefit smaller start-up businesses. In each of these cases, it was envisaged that accessing a**

lower level of grant funding or micro-loan should be aligned to a reduced administrative burden for applicants in order to enhance their accessibility and uptake.

“I totally appreciate the requirements for governance but I’ve put down “low risk funding”, so where it’s £2,000 to £5,000, manage the risk associated with that and hence the red tape...expectation of what are the outputs.”

Skills and their development were considered critical to developing diversification and entrepreneurship at farm level. For those undertaking diversification projects, concern was raised that they may not necessarily have the skills required to run a non-farming business. The majority of stakeholders indicated that in relation to getting farmers to consider diversification enterprises there needed to be a greater focus on entrepreneurship and innovation within agricultural training courses and in continuous professional development programmes. There was a view that businesses may fail due to uninformed decision-making and a basic level of training in areas, such as, pricing, marketing, ~~and~~ use of social media ~~and~~, employment law was required. Support and training in these and other relevant areas could serve as part of a ‘softer support programme’ from a policy perspective, to help establish and sustain rural diversification businesses.

“Essential business training including core skills in business planning, finance, marketing, human resources and operations management.”

Finally, stakeholders stated that it was important to have advisors available to provide advice to diversifying farms and these advisors should have a good working knowledge of business and farming. This emerged as an issue with stakeholders as they highlighted how, compared to the previous Rural Development Programmes, the current programme does not have advisors specifically dedicated to farm diversification. Advice is now provided through Local Action Groups (LAGs) and stakeholders indicated that those providing advice do not have the level of knowledge or experience to provide relevant and focused advice specifically directed towards family farm businesses. This suggests there is a need to revisit programme delivery to ensure

that those providing support and extension services understand the particular issues and the distinct nature of farm family businesses.

“I think a lot more farmers could get involved but they just need someone to kind of give them a few ideas, you know, there's no one to advise them.”

Potential areas for growth

Stakeholders identified a number of diversification areas which they considered to provide real opportunities for farm businesses particularly in the areas of tourism, care services including social farming projects, professional services and artisan food. Stakeholders **believed** that there had already been considerable investment in **farm-based** tourism facilities, for example, in the renovation of an old farm building to provide bed and breakfast facilities. However, the majority of the stakeholders felt that there was still significant room for growth in this area. It was acknowledged that such tourism-related opportunities are **location-specific**; that is, most suited to farms who are ideally located close to tourist attractions or in a scenic location. The increased growth in tourism which NI is **experiencing, in general, was** considered to be important and something which could be exploited more.

“There are considerable opportunities for high quality and innovative projects in the tourism and leisure sector.”

Developing businesses that focus on **high-quality** food products was identified as an important opportunity for farm diversification in the future. On-farm processing and adding value to agricultural produce and creating shorter supply chains was identified as an important area with potential to develop successful diversified businesses. There was a view that NI as a food producing region has been **under-developed** and had ‘under-sold’ itself in that context.

“In the food production sector there are many opportunities for new ‘value-added’ products based on provenance, health attributes, quality and convenience.”

Several of the stakeholders identified the provision of care services, including childcare and elderly care, as being **underprovided in rural** areas and an area where farm families could get involved. It was also stated that there were opportunities around developing social or care farming programmes, i.e. those activities that employ farm-based resources to promote or generate, social and health services in rural areas. Central to these potential areas for growth stakeholders' expressed a need for good infrastructure provision, and in particular access to **fast and reliable broadband** provision in order to support the development of future **farm-based** businesses and to support wider economic development in rural areas.

Policy priorities and challenges

This Northern Ireland based study has highlighted and identified a range of factors which are considered relevant, beyond this particular region, to supporting policy development in the areas of farm diversification and entrepreneurship. A key issue to emerge was the need to recognise that farm-based diversification opportunities can emerge through the specific skills of an individual and can be unique to a specific place or location. This heterogeneity in type and nature of enterprises does not always align with the metrics which government rural development programmes are judged by in assessing potentially successful projects. Consideration is required in terms of how support is best allocated and what metrics are used to assess the potential success of funded diversification projects. To address this, greater collaboration is needed between relevant government departments and those involved in policy development and delivery. Policies supporting innovation and entrepreneurship ought to explore 'softer' support mechanisms other than financial grants. A focus should be given to the development of business and entrepreneurial skills and learning that supports the identification of new business opportunities for farmers, new-entrant farmers and farm-based females. Business support would be best offered in a bespoke and tailored way specifically to farm businesses and mentoring support extended beyond the initial project start-up period. Furthermore, resources should be allocated to promote exemplar diversification businesses in order to encourage peer to peer knowledge exchange and increase the visibility of successful diversification projects. Policy interventions around these key areas should provide an environment where there is increased uptake in farm diversification opportunities to ensure the development of sustainable diversification businesses which will contribute to the wider rural and regional economies.

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