

Contesting Indonesia's Single Origin Coffee Market: A Dynamic Capabilities Perspective

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Abstract

Coffee is a commodity that has high value and great demand, then its supply chain tends to be monopolized by big actors certainly for single origin coffee bean. However, increasing number of local coffee shops and consumer awareness of consumed goods, and the emergence of more conscious consumer groups of “coffee lovers” or “connoisseur’s consumers”, sparks an intensive competition among market actors in local level that influence such dominance. This study aims to employ the dynamic capabilities theories (DCs) to analyze how the market actors, namely small traders, wholesalers, certified companies, and coffee shop owners build a strategy to secure their coffee supply amidst the tight competition. Selecting the coffee markets in Dampit District, East Java, Indonesia, we find the actors fighting for social space to win the competition by building network, dependency, and legitimacy. Actors build capabilities based on the internal potential to identify opportunities, take the opportunities, and utilize them to transform business organizations to survive rapid environmental changes. Not just looking at dominance behaviors as how it is in the case of asset-based approach, DCs provide a more balanced perspective between the entrepreneur's capacity and asset control. Detailed research to see each actor builds long term strategies is needed in the future to describe in more detail their strategy in maintaining their business sustainability in the more competitive business environment.

Keywords: Coffee, local markets, dynamic capabilities, competition, network, dependency, legitimacy

1. Introduction

The coffee supply chain is one of the oldest commodity chains in the world built over the centuries which sustains colonialism to modern capitalism (Dicum, 2003; Kjeldgaard & Ostberg, 2007; Tucker, 2012; Barter, 2016). Although it has not taken significant portion in the coffee distribution, the demand for specialty coffee and single origin in the past ten years have continued to increase with the rise of local coffee shops in big cities in Indonesia (Ibrahim & Zailani, 2010; Wright & Rahmanulloh, 2017). In addition, the demand for world coffee lovers who buy directly to small distributors although in still limited quantity becomes the new alternative to coffee marketing (Bacon, 2005; Vicol et al., 2018). Although, it does not become one massive movement yet as coffee farmer organization in Latin America (Levy et al., 2016; Bellante, 2017), the seeds of resistance to the dominance of the highly monopolistic conventional marketing channel are beginning to be felt in coffee-producing centers in Indonesia. Local co-operatives built by activists and international donor, and the individual movements of coffee lovers who continue to educate farmer increasingly dynamic the local coffee market (Neilson et al., 2015).

Meanwhile, although alternative marketing provides better pricing and transaction security, it does not necessarily divert the harvest of society and even member of the cooperative in the new system. Trust of direct payment in the field, debt practicality and also easy to establish a relationship with the middleman is their main reason not to sell coffee to cooperatives other than it is farmer household strategy to survive in uncertainty condition (Minoo, 2017) so it is very difficult to change the habit. Even some research shows that the increase in demand for quality coffee does not necessarily have a positive impact on the farmer welfare (Shumeta & D'Haeseb, 2016). Although it has been certified as specialty coffee by an international institution, it does not necessarily stabilize coffee commodity price, the even small farmer is very difficult to maintain quality because the certificate is largely an initiative of Distribution Company rather than a farmer (Neilson et al., 2018).

The monopoly of coffee companies and the non-development of marketing alternative developed by a new

system such as specialty coffee encourages farmers and activists to build the new channel of marketing through a network of local coffee shops and export individually in small quantity abroad (Ibnu et al., 2015). The rapid growth of coffee shop in Indonesia, as well as in other countries in the world, gives new opportunity to the farmers and their networks because so far the coffee shop buys at traditional markets and it does not know the single origin. This can not be separated from the phenomenon of culture “starbuckisasi” of drinking coffee, although the forms and cultures built for each country are very dependent on local culture. For example in Japan and Turkey, coffee shops which adopt Starbuck build their own character, rather than following the creolization process or domestication, it is more as culture alternative form that is more impressive opposition than following the mainstream culture (Al-Rasheed et al., 2007; Grinshpun, 2014; Yilmaz et al., 2017).

On the consumer side, the Indonesian middle class is getting educated by the massive campaign of local and world coffee lovers who introduce coffee through social media. Various events of the coffee exhibition and the competition of barista are always crowded followed by young people because the barista profession includes a profession that is quite popular with young people. In fact, documenter films about coffee always get good appreciation even two serial commercial films that specifically explore the life of barista watched by hundreds of thousands of people. The image development of the barista profession, accompanied by counseling work by coffee activists simultaneously gives an impact on the change in coffee consumption behavior from consuming instant coffee to the single origin. Although it is still small in number as it has been mentioned above, the movement is also able to encourage the local coffee company to develop single origin products, whereas for hundreds of years they have monopolized the culture and market by selling instant coffee (Tucker, 2012).

Not only forcing local coffee companies to develop single origin coffee, a large number of people involved in the coffee business as well as the social and political potential of their lovers added by the network of farmers and activists involved, apparently also attracts politicians (Jeffrey et al., 2017). In recent decades, local government in coffee production center competes to gain sympathy by developing various support programs to either build their local coffee brand or subsidizes farmers’ production by providing free coffee seeds and processing tools, and certification program (Durand & Fournier, 2017; Neilson et al., 2018), though mostly just to look for the people sympathy. Whatever it is, coffee and all the accessories that surround it simultaneously provide new space for the growth and development of business and culture of drinking coffee which is different from the one that has been monopolized by the corporation (Grinshpun, 2014, 2017).

Due to the increasing demand while quality and available coffee bean throughout the year are relatively difficult to obtain, then the local shops are starting to establish a network of providing coffee bean directly from the farmer. New independent middlemen also appear who sell individual coffee bean to shops that only operate during harvest by building a semi-permanent coffee processing facility in cooperation with a local farmer. At the same time, the central and local governments also introduce an entrepreneurial program as well as geographical indication certificate where the farmer is encouraged to directly access the market so as not to be mocked by the middlemen, including agricultural processing program so that the farmer gains added value (Durand & Fournier, 2017; Mirzanti et al., 2015). Even some local governments buy roasting machine imported from Germany that the price is nearly 40,000 euro per unit to be donated to farmer group who wants to process their own coffee.

Thus, at the local level, there is a kind of cold war between traditional network commanded by middlemen, local shop owners, independent middlemen, and the farmer groups who are also encouraged to process and market their coffee process. Their presence simultaneously with the same purpose certainly will lead to competition and grab the coffee at the field level. This has implication for the difficulty of almost all coffee marketing modernization programs to improve their vertical integration even though the government provides various supports (Minten et al., 2017). Thus this research specifically aims to illustrate how the various patterns of economic behavior of each party, how to build their respective networks and strategies used and its impact on conventional marketing network that has been built all this time.

In order to maintain business continuity, each party will develop a strategy according to their ability to compete for the single origin coffee market at the grassroot level. The effectiveness of the built strategy is determined by the ability of the parties to identify opportunities, control the opportunities, and use them to transform their business organizations. In strategic management, the ability of the business institution is referred to as dynamic capabilities (DCs) or the ability of an organization to perform sensing and seizing of certain opportunities. Both DCs components further determine their success in transforming their business.

Therefore, this research will exploit DCs to be the primary analysis tool to illustrate how each side competes against each other to gain access to single origin coffee at the grassroot level. DCs are chosen because they have several advantages in analyzing the ability of business organizations to grow their business by transforming the

organization amidst the high social environment changes. In the context of single origin coffee market, enormous business environment changes, especially local and global coffee demand growth encourages market players to develop specific strategies in order to be able to compete.

2. Theoretical Framework

2.1 Dynamic Capabilities Theory

Theory in strategic management to analyze how economic institution grows and develops and competes in constantly changing environment undergoes a fairly long transformation of one of their dynamic capabilities (DCs) (Mohamud & Sarpong, 2016). At first, the researchers reveal resources base competitiveness where companies which have the most powerful resources that have the ability to survive (Saranga, George, Beine, & Arnold, 2018). This theory understands the resources as a material and static element, having economic value that at times can be used by the company to win the competition (Easterby-Smith, Lyles, & Peteraf, 2009; Helfat & Peteraf, 2003). In the next phase, DCs are apparently not as simple as the company’s routine and habitual processes in facing competition by utilizing resources well, but also a continuous learning process for transforming the company (Giniuniene & Jurksiene, 2015; Verreyne et al., 2016). In this context, the learning to produce “knowledge” must be constantly updated in order to be always contextual with a challenge that is constantly changing (Mohamud & Sarpong, 2016).

In the context of single origin coffee businesses where resources are not the only factor determining their ability to adapt to environmental changes, DCs will be sharply used as an analytical tool. Unlike other commodity businesses that rely solely on pricing strategies, coffee farmers prefer long-term relationships rather than choosing expensive prices. Even new networks established to facilitate coffee farmers open new market opportunities including certification of products such as organic, co-marketing through cooperatives, or geographical indications (GI) have not changed much of the behavior of farmers (Vicol et al., 2018). They are more confident in the old market network than joining new opportunities that they do not trust, let alone farmers who already have established marketing networks with local middleman (Neilson et al., 2018). Thus, using DCs that better see the ability of entrepreneurs to take a social position would be better at analyzing competition in this coffee market.

DCs develop more deeply because it is not understood merely a certain advantage of the company to other company such as mastery of technology or the ability of financial but as supporter how the basic skill can be utilized. Thus, the company has two types of capabilities, namely core capabilities or the advantages of one company relative to other company and dynamic capabilities as the component that supports core capabilities are useful to enhance competitiveness and efficiency of the company (Mohamud & Sarpong, 2016). It suggests that DCs are the culmination of the basic ability of the company since they were born, which from the beginning attaches themselves ordinary capabilities, operational efficiencies, and reactive capabilities respectively derived from the learning process of the company. Schematically, the DCs concept that shows the relationship of the various concepts mentioned above described as follows:

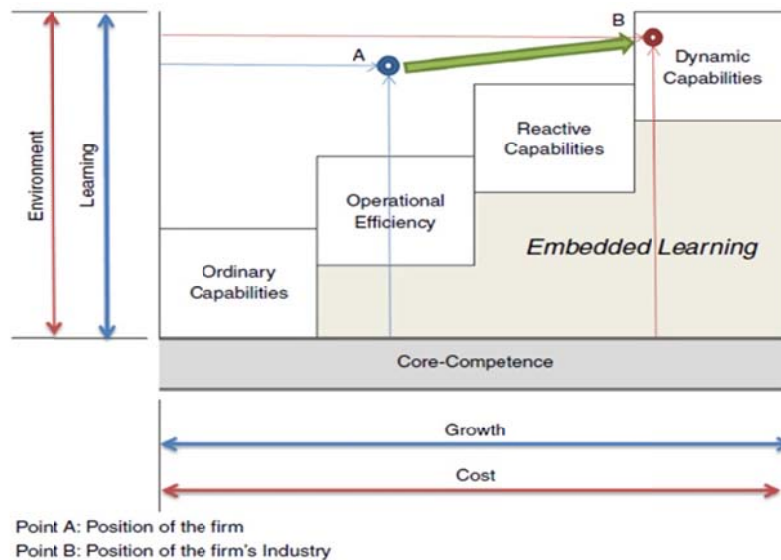


Figure 1. Dynamic capabilities frameworks (source: Mohamud & Sarpong, 2016)

There are cost and growth side as well as environment and learning process as supporting company in building dynamic capabilities. The company's ability develops a strategy to maintain position or even develops, is a manifestation of the company's dynamic capabilities (Teece, 2007, 2014; Denrell & Powell, 2016). Thus, every company has basic "ability" to compete where the capital will become very useful in competition when they have good dynamic capabilities. In the context of this research, ordinary capabilities, operational efficiency, and reactive capabilities are the basic capabilities of a company based on the existing condition that owned by business institutions that are fighting for coffee at the farmer level such as small trader, big trader, coffee shop and exporting company.

2.2 Dynamic Capabilities and Role of Actors

In the context of this research, actors build dynamic capabilities through two entrepreneurial activities, namely dedicated and leverage resources/skills and learning process where simultaneously this activity will produce substantive capabilities and organizational knowledge-two components of dynamic capabilities builder. Thus, dynamic capabilities in this framework do not directly result in performance, but rather as driver of substantive capability and organizational knowledge in order to increase because both are responsible for the company's performance (Zahra et al., 2006). Given this position, the dynamic capabilities are more of combination between substantive capabilities and organizational knowledge which is related reciprocally whose existence is a kind of catalyst for the process of improving institutional performance. As an illustration of how the role of actors in building dynamic capabilities can be seen in the following figure:

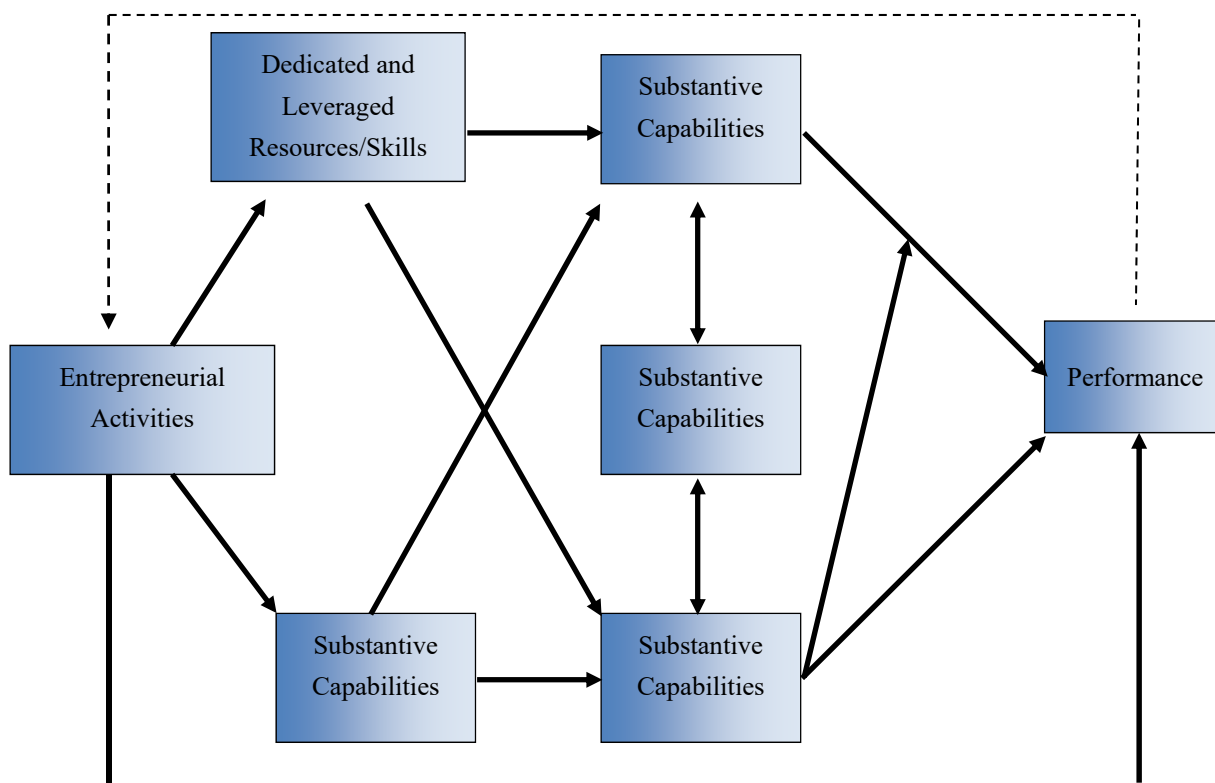


Figure 2. Model of Capability Formation and Performance (source: Zahra 2006)

More detailed, the dynamic capabilities have two major dimensions, namely regenerative capabilities and renewing capabilities (Makkonen et al., 2014). The regenerative is more inclined to the internal capability of the organization in order to maximize its current potential to be able to transform, make use fully the resources owned, and always learn from the process from within the organization. So this is more of a kind of inner potential due to the social process that occurs in organizational habit and routine. If it refers to the definition of Mohamud & Sarpong (2016), then the dimension of the dynamic capabilities is called core capabilities consisting of three dimensions, namely ordinary capabilities, operational efficiency and reactive capabilities. Clearly, the dynamic capabilities of its existence are largely determined by the internal capacity of each actor and this is closely related to their skills or abilities.

On the other hand, the renewing is more positioning the company in a competitive environment that is changing

over time where there are three main dimensions, namely sensing and seizing, knowledge creation and knowledge integration. The seizing and sensing are an attempt to put themselves in the right position so that they can identify, classify, and know how to use them. The knowledge creation is the ability to create new knowledge, absorb from the outside, and create new products or process so as to be able to use the existing potential. Meanwhile, the knowledge integration is the ability to integrate the above knowledge with the network, social capital from outside the company. Thus, strongly capitalized business institution including continuous organizational learning process, supported by proper positioning, sufficient skills to integrate outside knowledge by utilizing the network and social capital, will be an institution that has strong dynamic capabilities (Svare & Gausdal, 2017).

Table 1. Dimensions of dynamic capability.

Dimensions		Definition
Regenerative capabilities	Reconfiguration	The capability to continuously and purposefully reconfigure the existing resource base, enabling the firm to transform and exploit its existing knowledge.
	Leveraging	The capability to utilize and deploy an existing resource in new a situation, allowing the firm to replicate an operational capability in a new market.
	Learning	The capability that allows the firm to adopt, acquire and create new capabilities through the learning processes of the organization.
Renewing capabilities	Sensing dan seizing	The capability to position oneself favorably in an environment and to explore new opportunities.
	Knowledge Creation	The capability to continuously create and absorb new knowledge, and to develop new products or processes, also known as absorptive capacity.
	Knowledge Integration	The capability to acquire and integrate new knowledge through external sources such as networks, also referring to the utilization of social capital.

Source: Mohamud & Sarpong (2016)

Full research will focus on the actor’s strategy that moves at the local level representing several competing groups of coffee agribusiness in obtaining coffee supply from the farmer. The regenerative capabilities will describe their internal capabilities while the renewing capabilities will largely describe how they build the relationship with the farmers and their environment to win the competition. Therefore, this research will describe more dynamic capabilities in the definition of renewing capabilities because it involves their strategy of dealing with the resources outside their respective institution.

3. Method

This research is conducted in Dampit District, the largest coffee producing center in East Java, Indonesia which is very famous in the international coffee world as the origin of Java Robusta coffee. This area is the second colonial project in the late 19th century after the success of the Dutch built coffee plantation in West Java which is famous for Priangan Belt (Purnomo, 2011). Because of the uniqueness of this region cannot be replaced by any region in Indonesia and even the world because this region is a meeting between the wet seasons of sea breeze from the Indian Ocean that meets directly with the wet season of volcanic mountain wind from Semeru, the highest volcano in Java. Therefore, it is not surprising that the coffee companies operating in the region have partly existed in the colonial era.

3.1 Participant (Subject) Characteristics

We conduct a semi-structured interview on 25 coffee shops that make contact with local farmers about motivation, how they build a network, intensity of their visits and the length of their introduction, including the amount of coffee earned each season. Meanwhile, 25 farmers are also interviewed to get information about anyone who works with them, what facilities they get during cooperation, as well as their perception of the cooperation, whether it is positive or negative. We also conduct an interview with 19 farmer groups cooperating with the exporting company to deepen the certification process; their strategy maintains loyalty and government extension roles. To explore information on how the small trader develops a strategy to maintain the loyalty of coffee farmers, we conduct an interview with 10 small traders. In the meantime, to explore information about the strategy of the big traders, 5 highly expansive traders give debt to the big farmers we interview.

3.2 Data Analysis

We use descriptive qualitative analysis to map the networks of each actor and how they develop the strategy to secure that network. Meanwhile, in order to find out the dependency information they construct the researcher

does cross check to the information on the patron and client to ensure that the information conveyed is correct as the practice of debt as a fairly sensitive example of the information. Concerning the development of the “image” of each actor is entirely excavated in direct face-to-face with the principals so that justifications for their activities such as binding the farmer to debt can be described. This perception is then tested with another actor whether they agree with or not with the image built by the actors. Following the approach of social practices theory (Warde, 2014, 2015), we rely entirely on the routine and habitual observation of the actors in grassroots to ensure the motivation of each actor. Meanwhile, to guide the data of the actors’ strategy, we explore two main dimensions of dynamic capabilities, namely regenerative and renewing capabilities.

4. Results

4.1 Scrambling in Network

There are four groups that together operate in coffee production centers, although they do not appear vulgarly such as rice or corn commodities where buyers attend simultaneously in the harvest. Besides coffee is relatively more resistant to rot, slow harvesting method that takes three to four months encourages actors not to be present on the ground but through the lobbies at home. The four groups are shop owners, certified export companies, big and small traders, who both build network up to the farmer level. Because of working in the same location, the network they build is usually overlapping, so there is potential for competition, especially to gain the trust of influential local farmers.

The shop is the fastest-affected group due to the development of competition escalation, especially in securing good quality stock so that they lately either individually or in groups establish a relationship with the farmers directly. They will visit the farmers during the coffee season and will be more intensive during the early ripe coffee season until the harvest arrives. An initial visit is a form of their commitment that the coffee farmers will be purchased, while early ripe visit is used to ensure that coffee has not been sold to others. In each visit, they usually provide the knowledge of the coffee cherry processing they have learned from books or internet and just help the making of para-para to dry the coffee. Large shops whose sales capacity is over one ton a year for one type of coffee and even regularly provides a subsidy of processing tools such as dome development, pulper, and material making para-para.

At the same time, a middleman as an old actor is more likely to use the old friendship approach and social relationship, including trust to ensure they also get the coffee bean. Since they are mostly local residents, they use primordial sentiments such as family relation and neighborhood. Social norm provides a negative rating on the farmers who sell coffee to outsiders. Even if their price is relatively higher, especially if the number of coffee is just a little. To keep the coffee from being sold to others, they provide loan facility although the amount is relatively small ranging from 100 to 200 kg of coffee beans. The habit has been long and institutionalized until there is a term “*if the debt to a neighbor when selling coffee to people far away*” – the satirical language is to mock the farmers who sell coffee to people outside the village.

For the big traders outside the village, have other was to build a network to the villages. They use large capital by giving a loan to the farmers on the condition of being paid with coffee during the harvest. The Farmers usually take advantage of this debt facility not only for the benefit of purchasing fertilizer or other production facility but also for other needs such as a custom festival, children’s schooling needs, and building house, or if there is sick family and needs cost a lot. The large traders prioritize large farmers because the potential of coffee earned will be greater than the debt they take as well as to facilitate supervision. The large traders have had a list of farmers in the region and their track record for decades.

The certified exporter company uses fully agricultural extension network and farmer group to consolidate coffee farmer. In Indonesia, the initiative has been long enough done by developing partnership system between company and farmer facilitated by government and research institution (Wijaya, Glasbergen, & Mawardi, 2017). They use regular group meetings to maintain a relationship with the farmer as well as to ensure that farmer’s farming method is in accordance with the provision in the certificate. Although they conduct certification process until now there has been no consolidation process of purchasing coffee from the farmers through the farmer groups. This is very strange considering the purpose of certification is to improve the coffee quality and get the coffee. As the researcher, I see them using big trader as an intermediary to buy coffee from the certified farmer. Although it can not be seen directly the relationship, between the big trader and the certified company are mutually helping at the field.

4.2 Creating Dependency

To win the competition, the actors not only rely on the network or the ability of capital to provide debt but they

also actively build an image among farmers. The big traders are perceived by the farmer as big patron of debt place if at any time they need large sums of money. Sukri, 56 years old the farmer with 1.5 hectares of land said: *“although many people are denouncing big traders in Dampit, yet they remain the most reliable if the farmers need quick and large amounts of money”*. The expression describes if the big traders actually have a negative image, but they are the easiest to give debt to the farmers so they can still maintain their dominance. The survey we conduct on a farmer group consisting of 58 people, twenty of them have debt totaling 435 million rupiahs, or the average farmer has the debt of 21.75 million rupiahs. The amount is quite large because it is equivalent to seven quintals of the super quality green bean.

The small trader does the same thing in creating dependency, by giving debt to the farmers even though the small amount ranges from one to two million only. If on the big trader they have to refund with coffee, then with the small trader can be returned with money even though it is very rare. Sometimes the small trader also as a trader of banana or coconut so that these two commodities can be also complementary. Because of the flexibility, the small trader still gets coffee from small farmers who also sell banana and salak to them. A considerable distance from the main market makes the farmers completely dependent on the small trader who goes around buying banana or crops other than coffee.

Compared to the big or small traders who create economic dependency, the coffee shop owners give more hope and knowledge about the future of coffee to the farmers. This does not greatly affect the small farmer, but for group leaders or large farmers can be both opportunity and hope. Entrepreneurship programs from the government though rarely succeed in becoming a sustainable business, they have at least knowledge of the importance of building new marketing network to break the middleman. Coffee shop fully uses this condition as a way to bind the farmers besides the price is relatively better than that offered by the big trader or the small trader. As we know, social capital greatly determines the loyalty of the actors in the market uncertainty including in facing price competition.

The exporting company creates dependency by using fully local authority where they camouflage themselves as if the certification program is a government program. It is a public secret that extension officer becomes the most effective hand of corporations to socialize their products and even becomes the most effective sales agents. Since all government programs including the distribution of fertilizer subsidy are always through the group, then the group becomes highly dependent on extension officer. From the group meetings I attend starting from the certification submission process of three years ago to the current certificate maintenance process, the task has been fully done by government extension officer. These double roles of government extension officer have become common secret among farmer group even among extension officer themselves.

4.3 Contestation “Image”

Any attempt to win the competition is to build partner loyalty where the loyalty will only be earned if the actor has strong legitimacy over what he/she does. The big traders also portray themselves as buyers who are not fussy about quality, in addition to the image of the farmer’s helper when he/she experiences difficulty. They will accept any quality of coffee sold by the farmers at the price that competes with the market. Paying system with coffee makes the impression that they do not lend at interest the debt up to be cultural legitimacy. In addition, the absence of official agreement letter and only recorded in the usual notes the farmer debts are very informal nature even though the money in circulation can be hundreds of millions. With such practical pattern of relationship, the farmer will be protected his/her pride because he/she does not need to manage too many administrations that are always required by the bank.

The interview I have conducted with the big traders (there are only 7 in one sub-district) they are not worried if the farmers do not pay the debt or send coffee to them. According to them, it is very small percentage of farmers who do not pay the debt so far, in addition to selling large amounts of coffee is difficult to the small traders, the old social relationship makes them always committed to paying the debt. Ali is 69 years old, a continuation of a family business established since 1923, said *“they must pay, otherwise this season will be next season. It is impossible for them to sell 50 or 100 kg to village trader because the village trader has small capital and also owed. Even if selling to another big trader will be caught and will be ashamed of me later”*. In addition, they also close tightly to anyone who is indebted to them so as to further enhance their image as good business “friend”.

How to build the image of the big trader above is very different from the shops. If the big trader establishes the image as “farmer friend”, then the shop establishes the image as people who “care about farmer”. They buy at the higher price even though it is quite chatty with the quality of coffee bean so that only the farmers who have high interest to learn that want to become a partner. They always encourage the farmers to process coffee well

and promise the price higher than the market, although still far below the price of single origin coffee that they get from the conventional market. Some shops are well established financially and potential to sell in the form of roasted bean can buy more than one ton of coffee on one farmer. Not only from local Malang, the shops also come from Jogjakarta, Bandung, Jakarta although they are always accompanied by local shops that become their network. By providing knowledge and information on specialty coffee price to the farmer, they successfully build an image as the partner who cares about the farmer.

What about the image that is built by the small trader? There is an interesting adage of them that is “if the debt to neighbors, selling coffee to distant people”, it means to prioritize on them as the neighbor is the social responsibility. Morally prioritizing neighbor is better than outsider including the shop, the big trader and another buyer. Especially the small farmers, they must sell to the small trader in addition to the few and inefficient amounts brought to the big trader in the city, the growing local social value forces them to sell to the small trader. The expression “Just have coffee one sack just really hold, take yourself to Dampit will run out just for the fare”, it intimates if the small farmers do not bid too much because the stuff is just a little where if they are too talkative to bid considered arrogant. Thus, the small traders imitate themselves as the closest friend who is not only deal with the trade but also other social affairs because they are usually adjacent.

What about the exporter company? Because certification is a new item for the farmers they are impressive as “bringing progress” because the certificate is the ticket to be an advanced farmer. As we know, the economic impact of this certificate has not been felt by the farmers especially the certification is done by the company and not by the farmers. Training, meetings at government offices, and discussions facilitated by the company confirm the building of this image. Some influential farmers are sent to other areas that have been certified for comparative study, and also occasionally providing transportation money if they hold meeting outside the village. The portrayal of certification as an essential instrument for transforming the farmers from just so-so to become more aware of the consumers needs their success to build assisted by agricultural extension as their main agent.

4. Discussion

What can we learn from the above contestation process? It turns out that each party uses the social position in a very effective way to build a network, create dependency, and build a positive image in the community which all three are considered as a determinant of farmer’s loyalty. The social position of the small trader as part of the community as for example is intelligently translated by tying the small farmers through creating certain values and norms that framing that does not sell coffee to an outsider, it is better to the neighbor, especially the number is little. Meanwhile, the dependency of farmers in selling products other than coffee derived from their garden is also used as a way to create dependency. As an illustration, the following table illustrates how the strategy of each actor to gain loyalty from the farmers.

Table 2. Strategies of Actors in Contesting Coffee Bean

Actors	Strategy of building network	Instrument of creating dependency	Competition in building image
Big trader	Prioritizing farmer who has wide coffee field	Debt in large quantity	Farmer friend- giving help when it is difficult
coffee shop	Prioritizing farmer who has an interest to learn more coffee and has wide field	Knowledge and network	Caring for farmer- teaching science and buying at good price
Small trader	Association of neighbors and brotherhood	Debt in small quantity and purchase of coffee garden byproduct	Close friend-not just the price but also the neighbor
Exporter	Agricultural extension and farmer group elites	Using extension workers who have power to share subsidized fertilizer and recipient of government program	Progress carrier - willing more advanced, join the certification

Source: In-depth interview 2017

The above results if we analyze with three main components of dynamic capabilities, (sensing, seizing and transforming) then show the unique process, because each party seems to have different consideration in detecting resources. The small trader in the sensing process identifies the potential farmer who will be his/her partner is a small farmer in the social environment where he/she is located by utilizing a network of friend or relatives. This is more as social based strategies than economic based strategies, given their low covering capabilities as well. They do not insist to follow the sensing that conducted by the big trader who uses debt and economic dependency guarantee loyalty as consideration. This is in line with the concept of core capabilities

(Bakar et al., 2015) it determines the process of renewing capabilities where the stronger the core capabilities, the stronger they are to create a wider network, greater dependency and build a positive image with wider scale.

In the export company, the sensing process is done very smartly where they are able to detect the parties that can be a partner in the long term because the certification is deal with many production and continuity of the quality. Utilizing government extension and farmer group whose existence will continue to exist institutionally are a very appropriate choice. Why? Since the certification involves new things, it needs government support to “force” the farmers to follow new system. Shop, on the other hand, because it is very independent and relatively small coffee needs to detect partner by utilizing the farmers who have wide field and quite knowledgeable about coffee. The shop really follows the principle of connoisseur consumer (Quintão et al., 2017), where certain people have a tendency to know more deeply what they consume.

On the side of the sizing process, the shop uses focused pattern by locking one or more people in one village and hopes the person invites the closest people to join. Or analogizing with the habits of the fisherman, the shop owner prefers to go to the fish cave in the sea, then puts a trap so that almost all the fish or coffee he/she gets. It is something very different from the small traders, where they use friendship, acquaintance, neighbors, and people they know in the village - sort of putting a net to get coffee. The export company clearly uses formal and structured channel by using power to ensure the resources they get. The big trader hooks up in large quantities and big baited “debt” to get large quantities of coffee from the big farmers. The export company apparently prefers to pay labor to build a pond, spread the seeds of fish, and harvest it so that it can be sure how much coffee will be able to harvest this year.

Interestingly, we also get from the transforming process performed by each of the above actors where each actor builds a pattern of different business operation. The shop because it only secures the supply of its raw material, it is more concerned with quality than quantity while the export company or the big trader focuses more on getting coffee as many as possible. Meanwhile, the small trader relies on the number of farmers despite the small average harvest. This is related to their small financial ability so unable to accommodate the large quantity of harvest. In the context of knowledge creation and knowledge integration in renewing capabilities (Mohamud & Sarpong, 2016), each actor is so actively using the existing network to be integrated into his/her business flow in accordance with their core capabilities.

Thus, the process of building the above actor dynamic capabilities is closely related to their codified knowledge and combined with knowledge creation, integrated into the network and the social capital they respectively build. The classification process of such potential is influenced by their internal capabilities, especially their ability to provide tools if the certain resource is controlled by “seizing”. This provides information that the actor’s internal capabilities are limiting for them in detecting, classifying and selecting resources, and formulating a strategy to apply for seizing process. Their business transformation is also fully aligned with their capacity in seizing resource and building knowledge to utilize their social environment resources to maintain their own business sustainability.

The above results also show a relatively unique phenomenon, in which each actor ultimately does not make a firm confrontation over coffee. Instead, the actors secure their interests to some extent and still give space to other actors. This is interesting because theoretically, every business organization has a natural instinct to monopolize and try to turn off other players, especially those with large capital. The freedom of all actors to build social networks with farmers and the absence of ties of binding sale agreements indicates that monopoly does not occur in the short term. Of course, if there is an increase in demand for coffee and production in the long term, scarcity may still occur and competition will be more open.

These results also strengthen the position of DCs as one of the more comprehensive approaches to explain about how business organizations build capabilities based on the internal potential to identify opportunities, take the opportunities, and utilize them to transform business organizations to survive rapid environmental changes. Not just looking at dominance behaviors as how it is in the case of asset-based approach, Dcs provide a more balanced perspective between the entrepreneur's capacity and asset control. Similarly, from the farmers’ side, DCs are able to reveal the fact that they are not just interpreted as a homo economicus that is determined by price, but instead, they are viewed as an active party to give meaning to every economic transaction that they do.

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