

Chapter 11

Developing Innovation Using Entrepreneurial Strategies: A Case Study of Colombian Coffee Farmers

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ABSTRACT

This chapter analyzes the entrepreneurial strategies that Colombian coffee growers develop in order to deal with adverse social, economic, and environmental conditions. These entrepreneurs are part of a long and rich heritage dating as far back as the end of the 19th century, when coffee became an important economic resource in Colombia. Constant variations, including coffee price volatility, instability of exchange rates, or environmental factors, such as climatic change and crop disease, are common conditions for coffee farmers. In order to survive during turbulent environments, coffee growers have adopted strategies such as the introduction of new services and final products; improvements in the production chain; horizontal and vertical cooperation; creativity and flexibility in order to be resilient to the changing market conditions. More than 560,000 vulnerable families in Colombia depend on coffee production as a main source of income, so studies to help strengthen their business are highly relevant.

INTRODUCTION

Colombia is a middle-size country with promising economic development that is undergoing changes stemming mainly from an ongoing post-conflict transition. According to the Colombian central bank (2015), the Colombian economy depends mainly on four sectors that represent its major GDP share: agriculture (including coffee, cotton, and sugar), manufacturing, commerce, and finance. Although the high reliance on agriculture in Latin American and Caribbean countries (LAC) was highly criticized throughout the 20th century by main economic actors and intellectuals, the sector remains a strategic and central part of LAC economies. The importance of agribusiness, modernization of agriculture

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practices, and insertion into Global Value Chains (GVC) has transformed the sector and added value to agricultural exports (Salles-Filho, Pedro, & Mendes, 2007). Technological shifts, growing populations, the logistics of agricultural goods distribution, and the development of genetically modified foods are some of the factors that have transformed natural resource-based businesses (Marin, Navas-Aleman, & Perez, 2009). The study of technological change in agriculture in developing countries remains crucial because it represents an important proportion of those countries' national GDP and is a major source of employment for unskilled laborers, who are constantly under pressure and in a vulnerable economic and social position (Clark, 2002). In the larger context, Latin America has 24% of the world's arable land and constitutes 11% of global food production (Inter-American Development Bank, 2014). Moreover, shifts in market patterns have changed businesses based on natural resources and have allowed Latin American countries broader economic opportunities (Marin et al., 2009; Perez, 2008).

Coffee is the most important export in the Colombian agricultural sector and, until the late 1990s, it was the main Colombian export commodity. Coffee has also been central to social and political life in Colombia¹. Soon after coffee production began in the country, the first producer associations were established, and governability and governance models were initiated to modernize political practices at the central government level. Coffee was at the heart of the country's development, especially in technological shifts and sectoral transformations in the agriculture sector. However, it was not until the 1980s that coffee production in Colombia evolved from being mainly based in small, dispersed land units to being the dominant export of the country.

Today, Colombia is the third largest coffee producer in the world, and the biggest producer of washed Arabica coffee. In 2013, after 49% of coffee plantations containing young coffee groves were made resistant to coffee rust, productivity increased by 27%, rising from 11.1 coffee bags²/ha in 2012 to 14.1 bags/ha in 2013. The most important Colombian coffee export destination is the U.S., which represents 44% of Colombia's total international trade, followed by Europe with a share of 31%, and Japan with 11% of total exports. However, in 2013, the international and domestic coffee price fell by 28% due to three factors: 1) an increase in the world coffee supply coming from Brazil, Vietnam, and Colombia; 2) the existence of large coffee reserves in the importing countries; and 3) unstable world macroeconomic conditions during 2013, attributable to developments in the US and Europe (FNC, 2014). These fluctuations in the market have put pressure on the national coffee industry and have threatened the economic and social sustainability of more than 560,000 Colombian families that depend on the coffee business.

Although the National Federation of Coffee Growers (FNC) has implemented many strategies to support small producers during crises, most people depending on the coffee industry for their livelihood live under high economic and social pressure. The FNC has obtained support from the central government, to the extent that the coffee sector has a national fund, '*El Fondo Nacional del Café*', which is allocated from the national budget. The presence of the FNC and its long trajectory in the structural development of the sector has been instrumental for the execution of long-term strategies and coherent governance for the national coffee industry (Urrutia, 1983). The power and presence of the FNC has prevailed since its establishment, such that it now controls the entire coffee production chain. This fact has been considered to be positive by many given that the FNC has supported the sector by investing in R&D through its research center, Cenicafé. It also helped federated coffee growers to gain education, financial support, and better prices in the international markets. However, the last coffee mission convened by the government highlighted that the FNC has a principal-agent problem given that the Federation acts not only as

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