ANALYSIS OF PARTICIPANTS' SATISFACTION UNDER CONTRACT FARMING: A CASE OF PEANUT FARMING IN LOMBOK ISALND

I Gusti Lanang Parta Tanaya[1]

Abstract

Contract farming is expected to reduce asymmetric information and price uncertainty of products. In partnership of peanut farmers with PT Bumi Mekar Tani (BMT) in Lombok, contract farming is intended to increase the performance of supply chain. Farmers may be interested in entering into the contract if it guarantees them to have better benefit. After two years running this contract farming, there is no evaluation about participant's satisfaction and about the performance of peanut supply chain. This paper reports participants' satisfaction in conducting their business under the contract and the performance of peanut supply chain. Data were collected based on semi-structured questionnaire and analyzed using Customer Satisfaction Index and Importance Performance Analysis. Descriptive and Factor Analysis are used to understand supply chain performance and its significant factors. The results show most farmers satisfy on the partnership with BMT and the performance of supply chain becoming better. The study also revealed that the socio traditional value of the villagers coloured the relationship between farmers and their product buyers.

Keywords: *Contract farming, Satisfaction Index, Partnership system and Lombok.*

Introduction

Market information within agribusiness supply chain participants for less developed country like Indonesia is commonly asymmetric [1] [19]. Participants other than farmer producers may access more information than farmers. This asymmetric information closely related to high and uncertainty of transaction cost which has never been assumed in neoclassical economic theory. Contract farming under partnership system is intended toward establishment of system that is able to balance the market information [6] [10]. Contract is a formal paper that is ratified together between two or more parties which regulate the way of conducting transaction including price, quality, payment method, penalties etc.

Contract farming creates reciprocal relationship between both parties, a company as a principal and farmers as agents. Despite both parties have been tied up with the formal contract, operationally, there is still some opportunity to break the contract due to moral hazard of participants. In partnership between peanut farmers and BMT in Lombok, farmers sometimes break the contract with reason of fail harvest whereas they sell their farm products to other buyers because they may earn higher price and avoid their credit

repayment [5]. A company sometimes plays some tricks in grading farm products. Sometimes a company deliberately keeps the farmer's farm product in its warehouse before weight them to be purchased therefore farmers loss their farm products weight in turn the farmers will earn less money. Based on this situation, participants' satisfaction is a keyword of the success of contract farming under partnership systems.

This paper aims to (1) understand the method of establishing contract for farmers and a company; (2) analyze the participants' satisfaction in conducting their business under the contract; and (3) analyzing a supply chain of peanut that is produced by farmers under contract.

Methods

Lombok Island of Indonesia consists of four districts and one municipality. Peanut is one of second crop after paddy in irrigated land or maize in dryland besides soybean, mungbean, peas, and tobacco. Farmers in all four districts in this island grew peanut, therefore peanut farming spread out in all district.

This study was carried out in two districts in Lombok Island, West Lombok and North Lombok Districts. Selection of these two districts because BMT has contract farming in these two districts. Two villages for each district were purposively selected as sample based on the criteria that the villages have largest contract farming areas with BMT at that time. Those villages are Desa Gerung and Desa Batu Putik for West Lombok District and Desa Loloan and Desa Amor-amor for North Lombok District. Data for this study were obtained from a face-to-face survey of 120 peanut farmers which is allocated as 30 farmers for each village (15 farmer partners and 15 farmer non-partners). The survey was conducted between December 2009 and August 2010. This type of survey was considered suitable because it meant that it was possible to obtain high quality data by ensuring that respondents were able to clarify answers to questions using the local language or dialect and hence overcome problems associated with low levels of literacy among respondents and language sensitivity [18].

Two type questionnaires were developed for this study - one for farmers and one for BMT. The farmer questionnaire was a comprehensive survey of their farm, the farm household and production systems employed. The questionnaire also included a section on their relationship with BMT. The questionnaire for BMT asked them the nature of their relationship with their farmer partners. To measure satisfaction and relationship

respondents were asked to respond to each statement on a six-point Likert scale from 1 (I disagree a lot or most dissatisfy) to 6 (I agree a lot or most satisfy).

Rate of participants' satisfaction is analyzed using Importance Performance Analysis (IPA) [13] [21] and Custumer Satisfaction Index (CSI) [21]. Performance of supply chain and factors affecting the relationship were then analyzed using descriptive and factor analysis with varimax rotation respectively [7].

Result and Discussion

Lombok at a Glance

Most of information in this section is summarised from [23] and [14]. Lombok Island is one of two main islands in the province of West Nusa Tenggara. Geographically the position of this island is between Latitude 8° 12′ and 8° 55′ South and Longitude 115° 46′ and 116° 28′ East. The island is bordered by the Java Sea in the North, Alas Strait in the East, Indian Ocean in the South and Lombok Strait in the West (Figure 1). It covers an area of 4738 square kilometres and has maximum length and width of 80 km and 60 km, respectively. Administratively Lombok is divided into four districts and one municipality. Those are West and North Lombok (1613 km^2), Central Lombok (1208 km^2), East Lombok (1783 km^2), and Mataram Municipality (134 km^2).
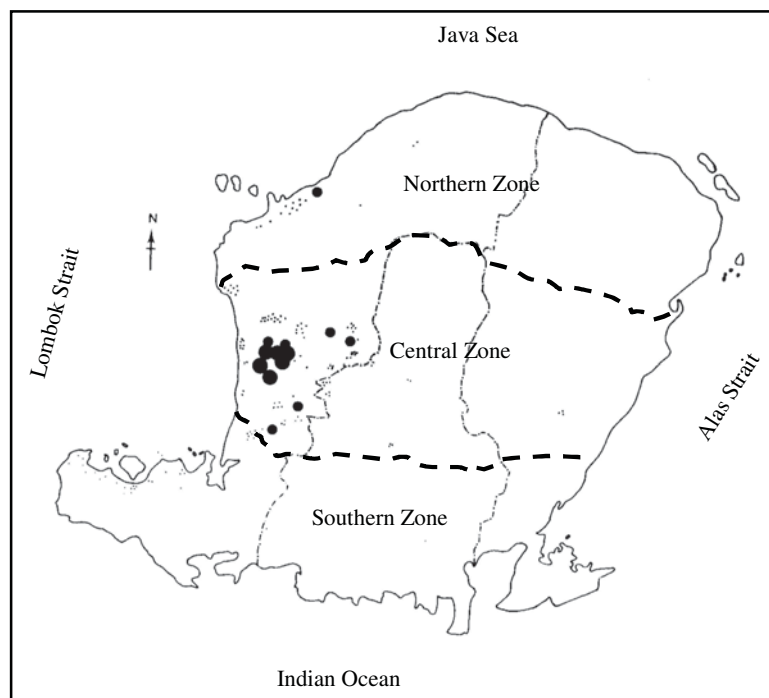

Figure 1. Map of Lombok

The island rises from seas level to approximately 1000 metres above sea level and has significant plateau and mountainous areas. Some parts of southern Lombok contain steep mountain slopes around Mt. Mareje and Mt. Timanuk but also include some plateau areas. The central part of the island is mostly fertile plateau and almost all is used to produce rice, which is irrigated from the island's two biggest rivers (Babak and Jangkuk Rivers), which flow through the area. The northern area is characterised by rolling hills and forest and with only small area of plateau. Both the northern and southern areas have no rivers and therefore are devoted to dryland farming methods.

There is a strong interaction between topography, soils, rainfall distribution and dominant vegetation. In the higher rainfall central area, the soils are so leached and stabled making them very fertile for agricultural purposes and very stable to erect buildings. However, in the lower rainfall northern and the southern areas there are marked differences in ecology and hence potential for agricultural practices. In the north, the soil is rocky, sandy and slightly leached and agricultural production is dependent on annual rainfall. This means that a single annual cropping regime is all that is possible. In the south, the soil has a high clay content making it hard when it is dry and sticky when it is wet. Whilst the area has the biggest dam in Lombok but it is only capable of irrigating a small proportion of the southern area although some farmers store rainwater in a man-made small pond called an "embung" for stock and when there is a surplus for irrigating a second crop. The government has not established groundwater schemes in this area, as they believe it is technical infeasibility.

Farmer's Income from Peanut Farming

Farmer's income in this study is calculated by reducing total revenue with total cost. Therefore, the value of farmer's income is affected by the peanut production value and all cost spends by farmers to produce peanut. Farmer's income that is calculated is income for farmer partner and income for farmer non-partner. The income from peanut farming for farmer partner is significantly higher than those of non-partner (Tabel 1).

Tabel 1. Average Production, Production Value, Production Cost, Farmer Income and and Farm Efficiency of Peanut Farming in Lombok, 2010

No.	Items	Value	
		Farmer Partner	Farmer Non-partner
1.	Production (kg/ha)	1.916	1.401
2.	Price (Rp/kg)	2.477	2.317
3.	Production Value (Rp/ha)	4.745.932	3.246.117
4.	Production Cost (Rp/ha)	2.637.641	2.085.618
	a. Seed	1.003.221	734.182
	b. Labor	1.488.639	1.199.692
	c. Tool Depreciation	145.781	151.744
5.	Income	2.108.291	1.160499
6.	Farm Efficiency (R/C ratio)	1,80	1,56

Farm peanut efficiency describes the rate of economic feasibility of peanut when it grew as a cash crop. The value of R/C ratio of farmer partner is significantly higher than those of non partner. This means that farmer partner is more efficient in managing their farm. It is reasonable because farmer partner have been guided intensively by technical assistant from BMT. Farmer partner is demanded to practice the standard method of peanut growing because their farm inputs are provided by BMT. Farmer partner must pay the farm inputs once the farmer sells their peanut to BMT.

Farmer Satisfaction

Satisfaction of farmer is analyzed using IPA and CSI. First step of this analysis is calculated the value of Attribute Relevance Value (ARV). Value of ARV is a ratio of Relevance Value of Attribute Performance (RVP) and Relevance Value of Attribute Importance (RVI). The figure is provided in Table 2.

Table 2 shows that value of ARV on average is 0.86 means in farmer perception only 86 percent of attribute value relevant or can be meet farmer's perception. This indicates that farmers have not been satisfied with the implementation of the attributes. The figure above shows only two items that have value over than one. Those items are 'Easiness of contacting Technical Assistance or TA' and 'Attitude of TA in farm field'. This means that farmers satisfy with the performance of technical assistance in the farm field.

Table 2. The Value of Attribute Relevance Value (ARV) for Each Attribute Measured, 2010

No.	Attribute	RVP	RVI	ARV
1.	Seed quality used (A1)	3.567	4.367	0.82
2.	Seed price charged (A2)	3.500	4.400	0.80
3.	Seed price negotiation (A3)	2.967	4.400	0.67
4.	Availability of seed(A4)	3.267	4.300	0.76
5.	Availability of fertilizer (A5)	3.500	3.867	0.91
6.	Method conducting field guidance (A6)	3.367	4.167	0.81
7.	Frequency of conducting field guidance (A7)	3.300	4.067	0.81
8.	Effect of field guidance (A8)	3.400	4.167	0.82
9.	Response of partner's claim (A9)	3.733	4.167	0.90
10.	Easiness of contacting Technical Assistance or TA (A10)	4.633	4.067	1.14
11.	Attitude of TA in farm field (A11)	4.267	4.000	1.07
12.	Method of peanut payment (A12)	4.067	4.100	0.99
13.	Price of peanut paid (A13)	3.800	4.367	0.87
14.	Price of peanut negotiation (A14)	3.167	4.567	0.69
15.	Involvement of partner in making contract (A15)	3.067	4.600	0.67
16.	Transparency of content of contract (A16)	3.633	4.400	0.83
17.	Implementation of content of contract (A17)	4.133	4.233	0.98
18.	Penalty of breaking down items in the contract (A18)	3.533	4.133	0.85
19.	Peanut quality or grade (A19)	3.800	4.333	0.88
20.	The increase of peanut production (A20)	3.767	4.367	0.86
21.	The increase of partner's capacity building (A21)	3.867	4.033	0.96
22.	Appreciation of partner performance (A22)	3.767	4.133	0.91
	Total			18.98
	Average			0.86

Step two of analyzing farmer's satisfaction is developing a diagram based on Importance Performance Analysis (IPA). Figure 1 performs the position of each attribute in Cartesius diagram. Based on Figure 2, attributes that affect farmer's satisfaction is divided into four categories and put them in four quadrants in Diagram Cartesius. Quadrant 1 (keep up the good work), Quadrant 2 (possible overkill), Quadrant 3 (low priority), Quadrant 4 (concentrate here). Explanation of each quadrant is discussed below.

a. Quadrant 1 (keep up the good work)

Attributes in this quadrant are A9, A13, A16, A17, A19, A20, and A22. These attributes have score value over average value of RVP (> 3.641) means the company BMT have carried out its standard procedure that are able to satisfy its partner, in this case farmer partner. These attributes also have value higher than the value of RVI (> 4.238) means farmer partners presume that these attributes are importance for

partnership or contract farming. All attributes in this quadrant need to be retain and or improve if possible because the company has conducted well and these attributes are considered important by the farmers.
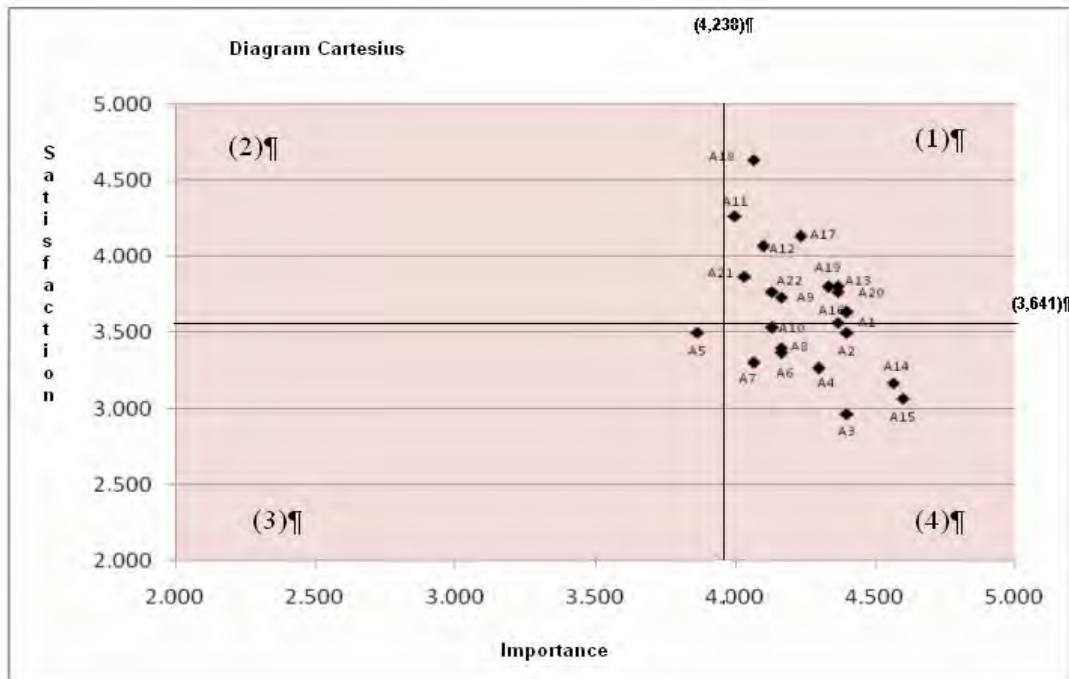

Figure 2. Diagram Cartesius for Satisfaction Rate and Performance Rate

b. Quadrant 2 (possible overkill)

Attributes in this quadrant is assumed less important by farmer partners but are carried out well by company. Value of RVI of these attributes are less than average value of RVI (<4,238), while their value of RVP are more than average value of RVP (3,641). Attributes which are accumulated in this quadrant may be re-evaluate whether they are retain or possible to be removed. Attributes in quadrant 2 are A11, A12, A18, and A21.

c. Quadrant 3 (low priority)

This quadrant contains attributes that have low value of both RVI and RVP. Score of these attributes are lower than its average value. These attributes do not necessary to put as priority. The company BMT in this case must not spend much energy to improve the performance of this attributes. In this case only attributes A5 and A7 come into this quadrant.

d. Quadrant 4 (concentrate here)

Attributes in this quadrant are assumed as most important factors by farmers but the company has not handle these attributes well. Therefore the company must concentrate to improve the position of these attributes. These attributes have value of RVI more than average value (>4,238) but have value of RVP less than average value (<3,641). Based on the IPA attributes in this quadrant are A1, A2, A3, A4, A8, A10,14 and A15.

Customer Satisfaction Index (CSI)

Overall the rate of farmer satisfaction can be measured using CSI. This analysis can be considered as a centre of satisfaction analysis. There are four steps in application of this analysis: calculating weighting factor, weighted score, weighted total, and satisfaction index. Result of satisfaction analysis using CSI is performed in Table 3.

Table 3.   The value of Mean Importance Score (MIS), Weighting Factor (WF), Mean Satisfaction Score (MSS) and Weighted Score (WS) of Farmer Partners, 2010

No.	Attributes	MIS	WF	MSS	WS
1	Seed quality used (A1)	4,367	4,545	3,533	0,161
2	Seed price charged (A2)	4,367	4,545	3,433	0,156
3	Seed price negotiation (A3)	4,367	4,545	2,867	0,130
4	Availability of seed(A4)	4,367	4,545	3,133	0,142
5	Availability of fertilizer (A5)	4,367	4,545	3,333	0,152
6	Method conducting field guidance (A6)	4,367	4,545	3,167	0,144
7	Frequency of conducting field guidance (A7)	4,367	4,545	3,067	0,139
8	Effect of field guidance (A8)	4,367	4,545	3,133	0,142
9	Response of partner's claim (A9)	4,367	4,545	3,433	0,156
10	Easiness of contacting Technical Assistance or TA (A10)	4,367	4,545	3,200	0,145
11	Attitude of TA in farm field (A11)	4,367	4,545	3,900	0,177
12	Method of peanut payment (A12)	4,367	4,545	3,667	0,167
13	Price of peanut paid (A13)	4,367	4,545	3,367	0,153
14	Price of peanut negotiation (A14)	4,367	4,545	2,700	0,123
15	Involvement of partner in making contract (A15)	4,367	4,545	2,567	0,117
16	Transparency of content of contract (A16)	4,367	4,545	2,600	0,118
17	Implementation of content of contract (A17)	4,367	4,545	2,733	0,124
18	Penalty of breaking down items in the contract (A18)	4,367	4,545	2,533	0,115
19	Peanut quality or grade (A19)	4,367	4,545	2,800	0,127
20	The increase of peanut production (A20)	4,367	4,545	2,567	0,117
21	The increase of partner's capacity building (A21)	4,367	4,545	3,100	0,141
22	Appreciation of partner performance (A22)	4,367	4,545	3,567	0,162
Total		96,067	100,000	68,400	
Total Weighted		3,109			
Satisfaction Index		62,18			

Based on Table 3 the value of satisfaction index is 62.18 %. This value is in range of 0.51 – 0.65, means that basically farmers who work together with BMT as business partner feel satisfy with the performance of the company.

Factor Affecting Relationship

The factor analysis (using principal component analysis) of the farmer and village intermediary responses resulted in five factors (Table 4). Factor analysis above provides five factors that strongly affect relationship between farmer partner and principal company, BMT. Those factors are:

- The variables included in the first factor are closely related to "Quality of the relationships". The variables "always meet promises" and "always considers my interest" are the main variables highlighted by this factor. The factor has a high level of reliability with a Cronbach's alpha value of 0.904 and explains 21.355 percent of total variance.

  Relationship quality in this study was conceptualised as a high order construct with main variables being commitment and transparency in the transaction. Three variables were related to commitment - always meeting promises, always considering your partner's interest, and does not mind taking risk together. Two further variables in this construct were variables related to fairness. Other people in the supply chain also noted that the quality of the relationship was the main factor influencing relationships. This concurs with the research by [11] who found that relationship quality was the dominant factor in relation to six other factors relating to relationships. Moreover, [9] found relationship quality also as a high order construct. This means that if both parties can maintain the quality of their relationship, there will be the continuity of the relationship.

- The second factor is composed of four variables closely related to the continuity of relationship with very high loading and reliability. The first three variables "trading partner plans to continue business in future", "BMT often meets my needs", and "BMT believes long term relationships reduce risk and uncertainty" have very high correlations within this factor. The factor has a high level of reliability with a Cronbach's alpha value of 0.927 and explains 18.524 percent of total variance.

  The continuity of the relationship is also influenced by the degree of interdependence between farmers and their principal company as farm produce buyers. Similar results

have been observed by [2] in the relationship between wineries and grape growers in Western Australia but the major factors at play were increasing cost effectiveness and reduction of relationship risk.

Table 4. Factors Explaining the Relationship between Farmer Partner and BMT on Lombok Island, 2010

	Factor Loading				
	1	2	3	4	5
Quality Related Factor	0.952				
BMT always meets promises	0.884				
BMT always considers my interests	0.862				
BMT usually understands my expectation	0.820				
BMT treats me fair	0.772				
BMT does not mind taking risks together	0.952				
Continuity Related Factor					
BMT plan to continue business in the future		0.957			
BMT often meets my needs		0.952			
BMT believe long term relationships are good		0.944			
BMT realises we are depended on each other		0.734			
Financial Related Factor					
BMT offers me the best price			0.949		
BMT provides a financial solution			0.872		
BMT does not mind paying extra cost			0.863		
BMT always gives me information			0.852		
Trust Related Factor					
I believe information from BMT				0.951	
I trust BMT personnel (TA)				0.949	
I prefer to transact with BMT				0.844	
Cooperation Related Factor					
BMT and I often solve problems together					0.876
I am free to chose buyer if BMT break promise					0.824
Cronbach's Alpha	0.904	0.927	0.824	0.814	0.657
Percentage of variance	21.355	18.524	18.413	14.668	8.288

- Factor Three is characterised by items that closely relate to financial issues. The first three variables "BMT offers the best price", "BMT provides a financial solution", and "BMT does not mind paying extra cost" are clearly about the financial relationships in the supply chain. The last variable in this factor "always gives me market information" while a communication issue but it is closely linked to financial arrangements. This factor is also reliable with a Cronbach's alpha value of 0.824 and explains 18.413 percent of total variance.

Buyer-seller relationships can be maintained if both parties feel that the price offer is the best available – financial influence. [20] proposed that in good relationships there were usually easily resolved pricing problems, while [22] positioned pricing as one of the major issues in the wood products industry.

- Factor Four captured all items relating to trust such as "I believe information provided by BMT", "I trust BMT" and "I prefer to transact with BMT". The last item signifies a high level of trust and is actually closer to commitment to the relationship. This factor is also reliable with a Cronbach's alpha value of 0.814 and explains 14.668 percent of total variance.

Good relationships can be maintained if supply chain participants trust each other. Trust has been defined by [15] as the willingness to rely on an exchange partner in whom one has confidence. A number of authors [3] have found that when trust exists between buyers and sellers then long-term relationships can be established with limited risk because each party is expected not to use their power to the detriment of the other. Trust is considered as a governance mechanism that mitigates opportunism in exchange transactions characterized by uncertainty and dependence.

- Factor Five is defined by two variables "solve problems together" and "I am free to choose another partner". This factor has been labelled "Cooperation". The second variable is closer to freedom than to cooperation issue. However, the freedom here is a product of commitment between partners to convenient the relationship. While this factor suggests lack of cooperation it also suggests that there is openness between trading partners. Even though this factor only explains 8.288 percent of total variance with a moderate reliability as indicated by the Cronbach's alpha value of 0.657, it is considered important in explaining buyer-seller relationships within the supply chains.

This study is in line with a number of others [17] [12] [4] that have argued that cooperation - coordinated actions initiated by one of the partner to gain mutual benefit - is the crucial factor promoting relationship and marketing success.

In summary, five factors were found to influence buyer-seller relationships in peanut supply chains in Lombok under contract farming with BMT- the quality of the relationship, continuity of the relationship, financial issues, trust and degree of cooperation. The research has also found that there is significant level of agreement between farmer partner and BMT. This is probably because both parties realise that good

relationships could provide mutual benefit to each of them and be a positive influence on future transactions [8].

Conclusion and Sugestion

Conclusion

This study has found that the peanut supply chains on Lombok are still very traditional. Based on result and discussion above some conclusion may be written as follows:

1. Peanut production of farmer partner is higher than those of non-partner. With the price received is lower for non-partner make the farmer income of farmer partner is significantly higher than those of non-partner.

2. BMT as a principal company must keep up the good work for attributes like response to claim, retain peanut price, transparency of contract items, implementation of contract, increasing quantity and quality of product, and appreciation of peanut quality. BMT must also concentrate more on seed quality, seed price, negotiation of seed price, seed availability, effect of guidance, easiness to contact TA, negotiation of peanut price, and involvement of farmers in developing contract.

3. Farmer partners have already been satisfied with BMT in carrying out business partnership (limited to attributes that are used in this study). Existing business partnership relationship may be retained or continuously improved by both parties.

4. In general, farmer partner feel satisfy working together in terms of business with BMT.

5. The buyer-seller relationships within the studied supply chains are therefore highly influenced by the socio-cultural structure of the village community. By identifying five significant factors among the buyer-seller relationship, this study has provided the basis for guiding new policies that will improve the performance of the studied supply chains.

Suggestion

Based on conclusion above, some issues may be suggested:

1. BMT need to continuously give maximum contribution to farmer partner to increase farm productivity and farmer satisfaction with the partnership system.

2. Farmer partner are expected to be more participative in supporting and implementing standard agricultural practices that is decided by BMT for the shake of establishment of sustainable partnership.

3. Policy makers must consider that any intervention must recognise the traditional cultural values, which make the supply chain work as it does. Without this recognition supply chains may fail or at best may lead to conflict between participants.

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