Does Distribution Channel Selection Matter among Zakat-Assisted and Non-Assisted Organic Rice Farmers? An Impact Assessment

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ABSTRACT

An organic farming system has the potential to advance farmers' wealth in comparison to conventional farming, owing to its ethical value factors. This study examines the influence of farmers' decision-making in choosing a distribution channel on their quality of life. This research samples both farmers who receive financial assistance from the zakat fund and those who do not. This study incorporates the ethical values of Islamic commerce into the model of analysis. The data is obtained from 64 farmers, analyzed using Structural Equation Modeling – Partial Least Squares (SEM–PLS) and independent statistical tests. Four criteria were identified as having a beneficial impact on farmers' quality of life, however, yielding no evidence to claim any difference in the quality of life between assisted-zakat and non-assisted farmers. The implications of this research are crucial for an appropriate measure of zakat impacts. Nevertheless, a larger sample size is necessary to obtain reliable results. The policy implications are to market policies for organic rice, with a focus on prioritizing farmer justice and fair pricing management for farmers.

Keywords: *Distribution channel, ethical value, Islamic marketing, organic farming, zakah*

INTRODUCTION

Organic farming is an agricultural system that seeks to enhance overall well-being and foster the dissemination of ethical principles. The sustainability of organic agriculture can be assessed through various means, e.g., the economic, environmental, and social factors measurements (Nicholas & Lampkin, 2015; Organic et al., 2008). Such measures align with the values of the International Federation of Organic Agriculture Movements (IFOAM), i.e., health, ecology, justice, and care (IFOAM, 2018), as well as the Islamic marketing ethics, i.e., spirituality, realism, and humanism (Usman et al., 2020).

The principle of organic farming aims to enhance the well-being of farmers (The Fairtrade Foundation, 2009), however, disputes among individuals and groups at various levels have arisen. Previous study discovered that eliminating distribution channels can have positive effects on the development of sustainability in organic agriculture products. In turn, it can lead to improvements in farmer income (Parvathi & Waibel, 2016). The monopolistic structure is present in organic products, as highlighted by Anh et al. (2019), goes against the ideals of IFOAM and Islamic marketing. The monopoly structure hinders the downstream process of organic products, i.e., diminishing the involvement of small farmers in the marketing process (Chen et al., 2019).

Rural farmers are facing challenges in accessing local markets, which has resulted in the dilemma of choosing distribution routes that result in the undervaluation of their products (LeRoux, 2014; Negi et al., 2018). An increased price presents an additional barrier to pricing organic products (Chiciudean et al., 2019), creating complications within the marketing distribution channel system. The elongation of the distribution networks results in elevated consumer pricing. The primary

determinant of a farmer's socioeconomic status is an increase in revenue (Zhang et al., 2017). Therefore, in organic agriculture, an effective distribution channel is crucial for the growth of organic products (Atănăsoaie G, 2011).

The distribution channel plays a crucial role in achieving the marketing and sustainability of organic agriculture. Prior research has examined the effects of distribution channels on the well-being of farmers, demonstrating the positive impact of an effective distribution channel on farmers' satisfaction and the value they receive. For example, Mmbando et al. (2017) conducted a study in Tanzania, Mariyono et al. (2019) and Yunus & Syahputra (2013) conducted studies in Indonesia, Bhattarai et al. (2013) conducted a study in Nepal, Terano & Mohamed (2014) conducted a study in Malaysia, and Elias et al. (2016) conducted a study in Ethiopia – all of these studies have shown that satisfied farmers who have access to a well-functioning distribution channel are more likely to engage in sustainable agriculture practices.

Rice is the predominant staple food consumed by the population in Indonesia. In 2020, the Central Statistics Agency (BPS) documented that the overall rice consumption amounted to 31.33 million tons. Furthermore, organic rice occupies a substantial 53,970 acres of land for cultivation, making it the second largest commodity. In 2010, the Ministry of Agriculture of the Republic of Indonesia (MOA) initiated the "Go Organic" to enhance the quality of life and implement the four principles of IFOAM. It also aims meeting the demands of the export market. This program has been in existence since 2018, as confirmed by the Agriculture Statistics of Organic Indonesia (AOI) and further endorsed by the National Board of Zakat Republic of Indonesia (Baznas), which has provided support for the program by assisting in the various stages from production to distribution.

Furthermore, Baznas' team has supervised the adoption of social business practices and ethics that align with Islamic principles, in addition to emphasizing the importance of added values. There is a lack of studies on the implementation of ethical principles in the agriculture industry, particularly in relation to organic rice production based on IFOAM and Islamic marketing principles. That is, this research aims to investigate the impact of marketing strategies on the socio-economic aspects of organic rice production, specifically comparing farmers who receive assistance from Baznas with those who do not. The novelty is in the empirical exploration of this relationship. The incorporation of business ethics is a supplementary factor that is assessed in the implementation of marketing. This study aims to analyze the disparities in the decision-making process of farmers, both those affiliated with Baznas and those who are not, while selecting distribution channels. Furthermore, the impact of these choices on the farmers' quality of life is examined.

The objective of this research is as follows. First, examining the characteristics and marketing channels of organic rice. Second, analyzing factors that influence the selection of distribution channels for organic rice farmers. Third, comparing the impacts of such selections on the welfare of the farmers, i.e., zakat-assisted farmers versus the non-assisted farmers.

LITERATURE REVIEW

Baznas assistance and farmers' ethical marketing

Baznas is an Indonesian zakat organization that is owned by the government and was founded according to the Presidential Decree Number 8 of 2001. The main duty

of Baznas is to collect and distribute zakat, infaq, and shadaqah (charitable donations) at the national level. Baznas has revolutionized the allocation of zakat funds to marginalized farmers. Furthermore, there exist other entities that supervise local farmer groups on behalf of the Indonesian government, commonly through agricultural extension services referred to as *Penyuluh Pertanian Lapangan* (PPL). Baznas, as an independent Islamic organization dedicated to the collection and distribution of zakah, strictly abides by fundamental principles in its operations. The principles encompassed in this list are Islamic law, trust, benefit, justice, legal certainty, integration, and accountability.

Drawing upon our experience as Baznas' supervisor of small farmers, it is evident that those who are directly overseen demonstrate a notable degree of honesty and integrity in their marketing efforts. This practical observation implies a possible link between oversight and moral conduct in the field of marketing. Although there is currently a dearth of research on this topic, this theory suggests that organic rice farmers who are closely Baznas-supervised may exhibit a greater dedication to promoting transparent and ethical marketing methods. Hence, we postulated that there are several discrepancies in the administration of marketing channels between Baznas and non-Baznas in the execution of ethical standards in line with Islamic law.

Theoretical development

1. Distribution channels
Marketing is a strategic method of generating, conveying, distributing, and trading items or services that possess worth for clients. Kotler and Keller (2016) assert that the core element of the marketing system is the integration of the 4Ps (product, place, promotion, and price). This 4Ps theory is more suited for regulating the marketing of goods by the manufacturer (Rafiq & Ahmed, 1995). Booms and Bitner (1981) expanded the marketing system by incorporating processes, people, and physical evidence into the 7Ps mix. this framework provides a more thorough approach to analyzing relationship marketing (Rafiq & Ahmed, 1995).

A distribution channel refers to a network of organizations, marketing agencies, or independent institutions that are involved in the process of delivering products or services from manufacturers to end consumers or users (Tomek and Robinson, 1990; Cramer and Jensen, 1994; Bucklin 1996; Palmatier et al., 2014). According to Atănăsoaie G (2011), the distribution channel plays a crucial role in achieving marketing objectives, yet many organizations lack sufficient awareness when it comes to choosing an appropriate channel (Coughlan et al., 2014).

Traditionally, distribution channels can be categorized into two main forms, i.e., direct channels (also known as zero level) and indirect channels (involving complex intermediates) (Coughlan et al., 2014). The alternative channel form is referred to as multichannel. The term "multichannel" refers to the idea that preferences for different channels can be influenced by considerations, e.g., cost, convenience, and privacy (Anderson et al., 1997). The distribution channel can be changed due to several circumstances, e.g., shifts in supply and demand, adjustments in assortment variances, or a decrease in the number of contracts (Coughlan et al., 2014).

The distribution channel indicator (DIST) comprises three main components. One, the direct channel entails the practice of farmers selling their products directly to end consumers. Two, the indirect channel entails farmers utilizing intermediaries, e.g., farmer organizations (example is farmer association or Gapoktan/*Kelompok*

Tani), distributors, middlemen, retailers, and other entities, to promote and distribute their products. Third, multiple channels, which is the integration of both direct and indirect channels, or the utilization of several channels by farmers.

2. Internal farmer asset (FRM)

Internal farmer assets (FRM) are used to invest in inputs, machinery, and delivery customs farmer-specific (Dlamini-Mazibuko et al., 2019). Capital factors significantly influence distribution channel selection (Zwart & Mcleay, 1997). Such factors are influenced by the goal of buying and selling organic rice and their past experiences as evidenced from Thailand (Thamtanakoon, 2018) and farmers' ability as the case of Chenese farmers (Hao et al., 2018). Furthermore, Soe et al. (2015) found that sales amount doesn't correlate with farmers' selections of distribution channels. However, greater market knowledge strongly influences farmers' channel choice. In contrast, Kyaw et al. (2018) large sales volumes and greater market intelligence may drive farmers to pursue direct distribution methods (Kyaw et al., 2018).

Furthermore, studies have highlighted the significance of internal elements in farmers' decision-making process when it comes to selecting market options. Dlamini-Mazibuko et al. (2019) discovered such impacts of asset ownership on the selection of distribution channels among farmers in Swaziland, while Zinnanti et al. (2019) particularly found that profit and economic risk are significant factors that influence farmers' choices when it comes to selecting markets.

FRM indicators consist of six dimensions, i.e., skills, capital, farm size, production quantity, accessibility and farmer objective. Skills encompass a farmer's capacity to evaluate market prospects and handle specific hazards (Hao et al., 2018; Thamthanakoon, 2018; Zwart & Mcleay, 1997). Capital denotes the monetary assets that farmers own to facilitate their marketing processes (Thamthanakoon, 2018). Farm size refers to the amount of land resources that a farmer possesses (Kyaw et al., 2018; Soe et al., 2015). The quantity of production directly impacts the length of the distribution channel, as studied by Kyaw et al. (2018); Soe et al. (2015); Zinnanti et al. (2019). Accessibility encompasses the essential infrastructure, e.g., transportation and communication, that is under the ownership of farmers and is crucial for facilitating the marketing process (Dlamini-Mazibuko et al., 2019; Kyaw et al., 2018; Soe et al., 2015; Thamthanakoon, 2018). The farmer's purpose includes the specific goals, e.g., maximizing profit or sharing risks, that the farmer aims to achieve in the marketing process (Zinnanti et al., 2019).

3. Product

The product (PR) is the result of manufacturing activities, influenced by multiple factors. Maniçoba & Silva (2008) identified various characteristics that influence both risk and market channel length, i.e., replacement rate, unit value, complexity level, product life cycle, volatility of brand quality, and product durability. It is crucial to consider factors, e.g., attitudes towards risk (Imam et al., 2014; Zwart & Mcleay, 1997), and the increasing transaction fees (Bhattarai et al., 2013). Hao et al. (2018) suggested that quality does not have a major impact on the selection of distribution channels for small dealers and cooperatives. However, it does have a substantial influence on the choice of channels involving large merchants and retailers.

The PR includes four essential metrics, i.e., perishability, product quality, unit value and product life cycle. Perishability refers to the length of time that

a product may maintain its quality (Imam et al., 2014; Maniçoba & Silva, 2008; Zwart & Mcleay, 1997). Product quality refers to the tangible state and advantages of goods provided by farmers to consumers (Hao et al., 2018; Maniçoba & Silva, 2008; Zinnanti et al., 2019). Unit value refers to the economic advantages that can be obtained by farmers through the trade of their products (Maniçoba & Silva, 2008). Product life cycle encompasses the procedure of preserving product quality as it gradually declines over time (Maniçoba & Silva, 2008).

4. Market

The market (MR) factor is a major point of attention, interconnected with the state of the market and customer and is influenced by both external and internal factors. Market-related information, i.e., payment length, among others, has a considerable influence on the choice of distribution channels (Thamtanakoon, 2018; Dlamini-Mazibuko et al., 2019). Kyaw et al. (2018) found that fluctuations in rice market prices had a substantial impact on the choice of distribution channels. The selection of distribution channels is influenced by a comprehensive examination of the market environment, which includes factors, e.g., the level of competition, pricing, market stability, consumer purchasing habits, and geographical market concentration (Bhattarai et al., 2013; Maniçoba & Silva, 2008; Negi et al., 2018; Zwart & Mcleay, 1997). The (MR) measures six indicators, i.e., information, certainty, consumer behavior, purchase amount, concentration and competition.

Market information, specifically price and payment duration, determines the cost of comparable products in the consumer market and comprehending the process by which consumers make payments (Bhattarai et al., 2013; Dlamini-Mazibuko et al., 2019; Kyaw et al., 2018; Maniçoba &

Silva, 2008; Negi et al., 2018; Thamthanakoon, 2018; Zwart & Mcleay, 1997). Market Certainty is the conditions in which the market can reliably absorb the items produced by farmers (Bhattarai et al., 2013; Maniçoba & Silva, 2008; Negi et al., 2018; Zwart & Mcleay, 1997). Consumer Behavior examines consumer attitudes towards acquiring a product, considering many elements, e.g., online–offline selling, and other techniques (Bhattarai et al., 2013; Maniçoba & Silva, 2008; Negi et al., 2018; Zwart & Mcleay, 1997). Purchase amount is the quantity of product acquired by farmer customers (Bhattarai et al., 2013; Maniçoba & Silva, 2008; Negi et al., 2018; Zwart & Mcleay, 1997). Market concentration evaluates the geographic perception of a product's position in the market (Bhattarai et al., 2013; Maniçoba & Silva, 2008; Negi et al., 2018;, and Zwart & Mcleay, 1997). Market rivalry assesses the level of rivalry among farmers who provide similar products. This evaluation takes into account criteria, e.g., price, quality, image, packaging, and other relevant features (Bhattarai et al., 2013; Maniçoba & Silva, 2008; Negi et al., 2018; Zwart & Mcleay, 1997).

5. Cost

Assessing production costs considers all aspects at the intersection of production and marketing. For smallholder farmers, the primary factor influencing their decisions is the transaction cost. The measurement of cost indicators (CO) involves evaluating six key aspects, i.e., cost and profit considerations, information of price offer, schedule of delivery, time and payment method, contract, and level of negotiation.

Costs associated with marketing process and the anticipated profits are calculated, covering transportation costs, market distance, pricing, payment methods, and incentive services (Dlamini-Mazibuko et al., 2019; Maniçoba & Silva, 2008;

Mariyono et al., 2019; Thamthanakoon, 2018). The information of price offers involves the process of seeking information related to the price offered by buyers to farmers (Dlamini-Mazibuko et al., 2019; Maniçoba & Silva, 2008). The schedule of delivery pertains to the duration of time involved in the purchasing and shipping of goods, along with the monitoring process of product delivery (Bhattarai et al., 2013). Time and payment methods considers the costs associated with the time span in the process of payment (Bhattarai et al., 2013; Thamthanakoon, 2018). Contract considerations involve the costs related to order contract agreements between buyers and farmers (Bhattarai et al., 2013). Level of negotiation is a factor considered in the bargaining process between profits and losses during the product marketing process (Negi et al., 2018).

6. Middleman

The middleman (MD) is an intermediary institution, can be an agency, group, or individual, and is responsible for coordinating marketing activities. Intermediary institutions in the Indonesian agricultural sector comprise various entities, e.g., farmer groups (Poktan), merged farmer groups (Gapoktan), and others. Hao et al. (2018) found that cooperative intermediaries play a crucial role in improving farmers' production, boosting their bargaining power, and facilitating their involvement in modern value chains. This ultimately ensures the long-term viability of their commercial operations. A trustworthy intermediary is beneficial to the choice of distribution channels (Maniçoba and Silva, 2008). Thus, establishing and nurturing connections with intermediaries or suppliers is considered essential for fostering long-term collaboration (Baron and Dimitri 2019). Thamtanakoon (2018) found that criteria such as reputation, trust, fairness, and information dependability have a substantial impact on the level of farmers' commitment to selecting distribution channels.

MD is evaluated based on five primary indicators, i.e., trust, closeness level, sharing risk attitude, commitment and support or channel offer. Trust refers to the establishment of mutual confidence that safeguards of one's reputation. Proximity level quantifies the degree of the link between two individuals. Sharing risk attitude evaluates an MD's approach to risk management when it comes to purchasing goods from farmers. Commitment refers to the mutual agreement to achieve common goals. Support or channel offer refers to the advantages provided by MD to ensure the ongoing operations of both parties (Maniçoba & Silva, 2008; Thamthanakoon, 2018; Baron & Dimitri, 2019; Hao et al., 2018; Dlamini-Mazibuko et al., 2019).

7. Islam and business ethics

The Islamic marketing comprises two primary components, i.e., ethics and morals, and empathy and grace (Saeed et al., 2001). The ethical principles in business have extensive ramifications in enhancing efficiency, upholding integrity, preventing abuse, fostering consistent collaboration relationships, promoting creativity, and improving quality (Abuznaid, 2009). The inclusion of ethics in business practices can enhance the business sustainability (Kassem et al., 2021; Muhammad et al., 2020). Social values, e.g., a feeling of shared ownership and the persistence of routines, had a substantial impact on farmers' selection of distribution channels (Thamtanakoon, 2018). In Islam, ethics is not solely a question of suitability, but rather an integral component. Demirel & Sahib (2015); Misanam (2009) found that immaterial advantages, e.g., value of blessings (*barakah*), have an impact on the financial performance of institutions.

The four IFOAM principles of health, ecology, fairness, and caring (IFOAM 2007) embody these Islamic values. The implementation of organic marketing in business adheres to the principles of Islamic marketing, defined by spiritual (tawhid), ethical, realistic, and humanistic factors (Beekun & Badawi, 2005; Hashi, 2016). Business ethic indicators (ETR) are assessed using three primary indicators, i.e., business ethics, social responsibility management and *barakah* of benefit.

Business ethics evaluates the implementation of attitudes align with the principles of IFOAM and Islamic marketing, i.e., refraining from *tadlis*, *gharar*, usury, *maisir*, *ikhtikar*, and promoting transparency, professionalism, justice, and accountability (Beekun & Badawi, 2005; Hashi, 2016). Social responsibility management measures farmers' obligation towards using organic agricultural methods (Thamthanakoon, 2018). Furthermore, the assessment of the impacts of tangible and intangible variables, along with the attainment of blessings, is classified as the indicator of benefit and baraka in business operations (Demirel & Sahib, 2015; Misanam, 2009).

8. Quality of Life

Quality of life (QL) refers to an individual's subjective evaluation of their overall well-being, considering psychological, health, socio-economic, and physical factors. This evaluation is based on realistic and ongoing observations (Elias et al., 2016; Terano & Mohamed, 2014). QL is evaluated based on five primary dimensions, i.e., basic needs, income, productivity, social care and giving behavior.

First and foremost, it is crucial to ensure that farmers have their fundamental needs met (Elias et al., 2016; Terano & Mohamed, 2014), as evidences have shown that a rise in the financial earnings of farmers are associated with productivity (Elias et al., 2016; F. E. Mmbando et al., 2016; Terano & Mohamed, 2014). The improvement of farmers' living standards, e.g., education, health, and consumption, is a significant aspect (Elias et al., 2016). The inclination of farmers to participate in zakat, infaq, and shadaqah is practically important to gauge farmers' quality of life.

9. Conceptual framework

Deriving from the previous findings as elaborated previously, it is indicated that farmers' choices of distribution channels (DIST) are influenced by multiple factors, probing upon internal farmers (FRM), products (PR), market (MR), cost (CO), middleman (MD), and business ethics (ETR).

Furthermore, expanding on these main assumptions, we hypothesize potential differences in concerns between farmers who are associated with Baznas and those who are not. Our hypotheses propose that there could be variations in the factors taken into account for the selection of distribution channels between Baznas-affiliated and non-affiliated farmers, specifically with regards to FRM (H1a), PR (H2b), MR (H3c), CO (H4d), MD (H5e), ETR (H6f), and Quality of Life (QL) (H7g). These ideas enhance our understanding of the various elements that influence the choice of distribution channels among diverse groups of farmers, especially in relation to the involvement of Baznas. The following Figure 1 is our conceptual framework.
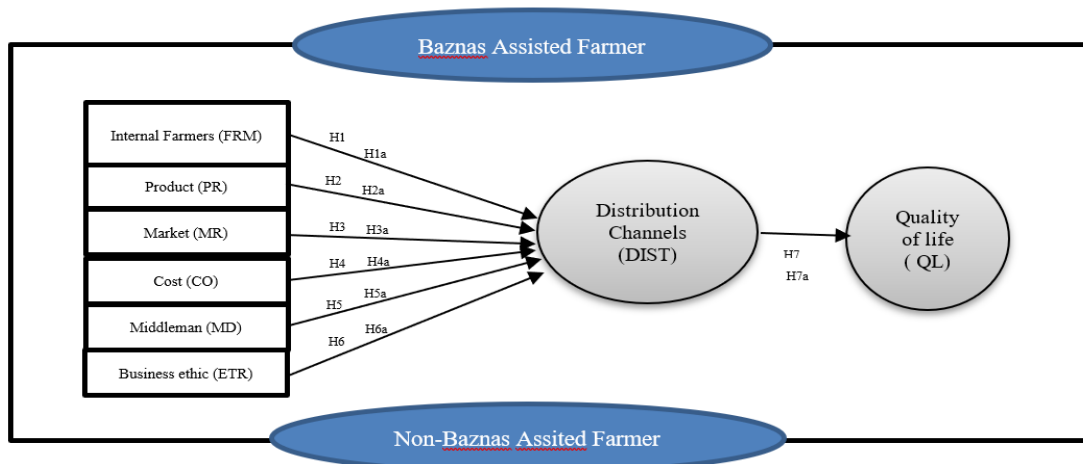
Figure 1. Modified model in distribution channel and the effect on QL
Source: The Authors (2020)

Developed hypotheses:

H_1: There is a significant influence of FRM consideration on DIST

H_2: There is a significant influence of PR consideration on DIST

H_3: There is a significant influence of MR consideration on DIST

H_4: There is a significant influence of CO consideration on DIST

H_5: There is a significant influence of MD consideration on DIST

H_6: There is an influence of ETR considerations on DIST

H_7: There is a positive influence of DIST on improving QL

Our proposed hypotheses:

H_{1a}: There is difference consideration of FRM in selecting DIST among Baznas and Non Baznas

H_{2b}: There is difference consideration of PR in selecting DIST among Baznas and Non Baznas

H_{3c}: There is difference consideration of MR in selecting DIST among Baznas and Non Baznas

H_{4d}: There is difference consideration of CO in selecting DIST among Baznas and Non Baznas

H_{5e}: There is difference consideration of MD in selecting DIST among Baznas and Non Baznas

H_{6f}: There is difference consideration of ETR in selecting DIST among Baznas and Non Baznas

H_{7g}: There is difference consideration of QL in selecting DIST among Baznas and Non Baznas

METHODOLOGY

Operational variables

This study explores the consideration of farmers in selecting distribution channels according to Islamic marketing approach, i.e., considerations of internal farmer assets, product, market, cost, middleman, and business ethic. Thus, the impact of such selection of distribution channels on farmers' quality of life is investigated. Following are the operational variables:

Table 1. Operational Variables

Variables	Indicators	Code
	Direct	DIST1

Distribution Channel (DIST)	Indirect	DIST2
	Multichannel	DIST3
Internal farmer assets (FRM)	Skill	FRM1
	Capital	FRM2
	Farm Size	FRM3
	Production Quantity	FRM4
	Accessibility	FRM5
	The objective of farmer	FRM6
Product	Perishability	PR1
	Quality	PR2
	Unit Value	PR3
	Life Cycle of product	PR4
Market	Market price	MR1
	Market certainty	MR2
	Consumer behavior	MR3
	Purchase amount	MR4
	Market concentration	MR5
	Market competition	MR6
Cost	Cost and profit	CO1
	Information of price offer	CO1
	Schedule of delivery	CO2
	Time and payment method	CO3
	Contract	CO4
	Level of negotiation	CO5
Middleman	Confidence level	MD1
	Closeness level	MD2
	Attitude to risk	MD3
	Commitment	MD4
	Support/channel offer	MD5
Business ethics	Business ethics	ETR1
	Management of social responsibility	ETR2
	Value of benefits and blessings	ETR3
Quality of Life	Fulfillment of basic needs	QL1
	Income	QL2
	Productivity and life quality	QL3
	Social care	QL4
	Like to ZIS application	QL5

Source: Compiled by the authors of previous studies, 2020)

Population, sample and sampling technique

Data sources divided into two small farmer groups, i.e., farmers who are assisted by Baznas and those who are not. The research was located in Cisayong and Sukahening subdistricts of Tasikmalaya as a group of non-Baznas and in Cikembar subdistrict of Sukabumi as group of Baznas. The data collection was from August to November 2020, with a total of 64 farmers as the final sample, consisting of 33 Baznas-assisted farmers and 31 non-Baznas assisted farmers. The number of organic rice farmer

population in the Gapoktan data was unstructured. Thus, purposive sampling techniques was deemed relevant. The sample used the following criteria, i.e., farmers whose land is certified organic, producing organic rice with the Planting System Rice Intensification (SRI) and selling their own products. The data was obtained through both quantitative closed questionnaires and qualitative open interviews.

Data processing

The data was processed by SmartPLS13 for SEM-PLS method. Garson (2011) explained that PLS analysis is an alternative to ordinary least *square* (OLS) *regression* or covariance-based structural equation modeling (CB-SEM) of predictor *(independent)* and response *(dependent)* variables. SEM-PLS is widely used for examination of explanatory model measurements (Hair Jr et al., 2016) or predictive (Garson, 2011). According to (Hair Jr et al., 2016), rules of thumb for the use of SEM PLS is the goal to predict the main target or identify research constructs, formatively measured constructs are part of complex structural models (many variables and many indicators), sample sizes are small with no distributed normally, and use latent variable scores in subsequent analysis.

SEM PLS consists of two measurements, i.e., outer model test and inner model test. The outer model test consists of two parts, formative and reflective. Outer model testing is the focus in a reflective model, representing the path from a factor to an indicator variable. The most important measurements for SEM-PLS are reliability (internal *consistency),* convergent validity, and discriminant validity. For structural models, the most important evaluation metrics are R^2 (coefficient of determination), f^2 (effect size), Q^2 (predictive relevance), and the statistical size and significance of structural path coefficients. Hair et al., (2016) recommends using assumption signification at a level of 0.05 or a confidence level of 0.95 for marketing studies. The acceptable criteria can be seen at Table 2.

Table 2 Fit criteria of SEM PLS model

Indicator/s Outer Model	Rule of thumb	Source
Internal Consistency		
Cronbach's alpha	• 0,6 acceptable *(explanatory)* • 0,70 acceptable • ≥ 0,80 good	Garson, 2011; Hair et al., 2016
Composite reliability	• < 0,6, less reliable • 0,6 -0,7 acceptable *(explanatory)* • 0,70-0,90, *satisfactory (confirmatory)* • > 0.90 not expected	
Convergent and Discriminant Validity		
Loading Factor	• < 0,4 eliminated • 0,4 > OL < 0,7 considered • > 0,7 maintained	Garson, 2011, Hair et al., 2016; Chin, 1988
AVE	• > 0,5 valid	
Cross Loading	CL > other construct	Garson, 2011; Hair et al.,
Fornell Locker	AVE > r^2 of other construct	2016; Henseler et al.
HTMT	HTMT < 1,0	(2015)
Inner Model		
R^2	• 0,67 or 0,75 subtantial • 0,33 or 0,50 moderate	Chin, 1988; Hair et al, 2016

	● 0,19 or 0,25 weak		
f^2 (effect size)	● 0,02 weak	Hair et al., 2016	
	● 0,15 fair		
	● 0,35 robust		
Q^2	● < 0 no predictive relevance	Chin, 1988;	
	● > 0 predictive relevance	Hair et al., 2016	
Size and significance of path coefficients*	● Two tiled: 1,65 (10%); 1,96 (5%); 2,57 (1%)	Hair et al., 2016	
	● One tiled: 1,28 (10%); 1, 65 (5%); 2,33 (1%)		

Furthermore, the analysis of differences between two objects of research is used to strengthen the research objectives. The study used Mann Whitney U test. Mann Whitney U test is used in comparing of two population based on independent sample (Mendenhall et al. 2009). This statistics measured the different in the sample means. The test has several assumptions (Nachar, 2008):

1. the two investigated groups must be randomly; the concept of random implies the absence of measurement and sampling errors;
2. each measurement or observation must correspond to a different participant, in statistical terms, there is independence within groups and mutual independence between groups;

3. the data measurement scale is of ordinal or continuous type, if the value of $|Z| > 1.96$, it means there are differences between two objects and if the value of $|Z| < 1.96$, it means there are not differences between two objects.

RESULT

Sample characteristics

The number of respondents in this study were 64 farmers with 31 was not affiliated with Baznas while another 33 was Baznas farmers. Table 3 presents the respondents' characteristics.

Table 3 Respondent characteristics

Description	Non Baznas		Baznas	
	Quantity	Percent	Quantity	Percent
Gender				
Male	30	96,8	33	100
Female	1	3,2	0	0
Age/s (Years Old or Y.O)				
< 25	0	0	0	0
25-34	0	0	1	3.0
35-44	3	9.7	7	21.2
45-54	2	6.5	12	36.4
55-64	12	41.9	9	27.3
≥ 65	12	41.9	4	12.1
Last Education Level/s				
Elementary School (did not finish)	0	0	6	18.2
Elementary School (finished)	17	54.8	21	63.6
Junior High School/equivalent	1	3.2	4	12.1
Senior High School/equivalent	9	29.0	2	6.1
University/equivalent	4	12.9	0	0
Main Occupation				
Agriculture	31	100	31	93.9
Other	0	0	2	6.1

Farmer State				
Owner	20	64.6	6	18.2
Cultivator	10	32.2	24	72.7
Other	1	3.2	3	9.1
Land Ownership				
One's Own	20	64.6	6	18.2
Rent	10	32.2	22	66.7
Other	1	3.2	5	15.1
Arable Land Area (Acres)				
0.1 – 0.28	4	12.9	20	60.6
0.29 – 0.57	21	67.7	9	27.3
0.58 – 0.85	6	19.4	4	12.1
0.86 – 1.12	0	0	0	0
≥ 1.13	0	0	2	6.1

Source: *Data Processed* (2020)

Table 2 shows respondents' characteristics based on gender size, age, occupation, farmer status, land ownership, and arable land area. Both of the farmer groups are dominated by male farmers. The age of Baznas farmers is dominated by members with productive age (<54 y.o). Meanwhile, non Baznas farmers were dominated by non-productive age (>54 y.o). The level of education shows that non Baznas farmers were higher compared to Baznas farmers.

Almost all members in both groups work as farmers for their primary occupation. This means that both samples focused on their soil processing for their daily income. However, land ownership status of Baznas farmers' ware majority rent land, while non-Baznas farmers were the owners. This is in line with the status of farmers of both groups. Non-Baznas farmers have full authority over the power of their lands. Meanwhile, Baznas farmers have consequences of sharing revenue. The average area of land worked by farmers is still below 0.5 hectares.

Distribution channel of Baznas and non Baznas farmers

Figure 2 and 3 show options of rice organic distribution channel selected by Baznas and non-Baznas farmers.
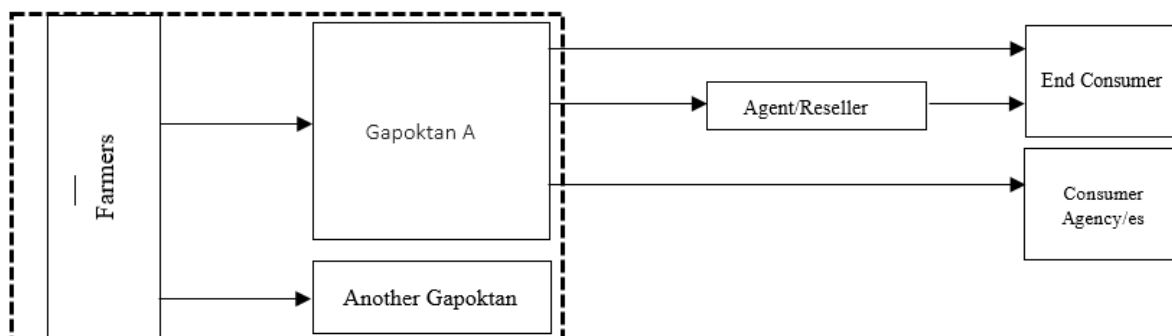

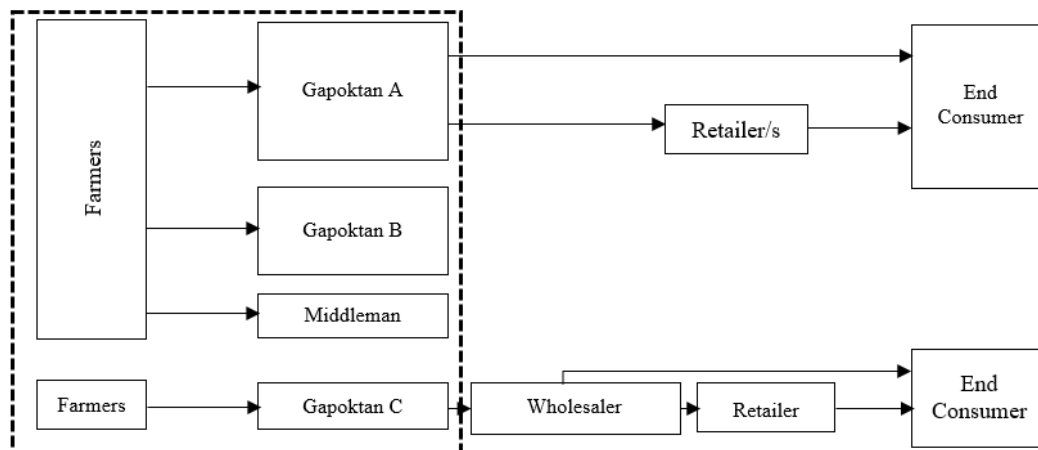Figure 2 Distribution channels of Baznas farmers

Figure 3 Distribution channels of non-Baznas farmers

Baznas farmers have two market alternatives to sell their products, i.e., Gapoktan A and another Gapoktan. However, the distance is a consideration for farmers which refers to the costs to be borne and the expected profit. Gapoktan A became the main market and it immediately supervised by Baznas. The dry grain is processed in Gapoktan and become ready to sell to their customers according to MOA regulation standard. Meanwhile, non-Baznas farmers have three market alternatives to sell their dry grain, i.e., Gapoktan A, Gapoktan B, and middleman. It can be inferred that the specialty market for organic rice grain is limited. Farmers consider market selection considerations based on costs and price offer.

Fit model analysis

Steps to test the model's suitability is the outer and the inner model tests. An outer model measures the indicators and paths that connect with its latent variables. This study used a reflective model outer test. Table 4 is the ideal value of reflective evaluation model. The results show validity and reliability decisions in accordance with the criteria (see further: Chin, 1998; Hair Jr et al., 2016; Marcoulides et al., 2009).

Table 4 Outer model test

Latent Variable/s	Indicator/s	Convergen validity		Internal Consistensy Reliability		Discriminant validity		
		Loadings Factor	AVE	Cronbach Alfa	Composite Reliability	Cross Loading	Fornell Larcker	HTMT
		>0,6	>0,5	0,6-0,90	0,6-0,90	> other construct	AVE> The correlation of squares of the other constructs	< 0,1
FRM	FRM2	0,934						
	FRM3	0,875						
	FRM4	0,888	0,700	0,891	0,920	Yes	Yes	Yes
	FRM5	0,835						
	FRM6	0,613						
PR	PR1	0,815						
	PR2	0,810	0,692	0,778	0,871	Yes	Yes	Yes
	PR3	0,870						

Latent Variable/s	Indicator/s	Convergen validity		Internal Consistensy Reliability		Discriminant validity		
		Loadings Factor	AVE	Cronbach Alfa	Composite Reliability	Cross Loading	Fornell Larcker	HTMT
		>0,6	>0,5	0,6-0.90	0,6-0.90	> other construct	AVE> The correlation of squares of the other constructs	< 0,1
MR	MR1	0,708	0,596	0,669	0,815	Yes	Yes	Yes
	MR2	0,753						
	MR3	0,848						
CO	CO1	0,736	0,752	0,890	0,923	Yes	Yes	Yes
	CO2	0,932						
	CO4	0,907						
	CO6	0,880						
MD	MD2	0,857	0,707	0,795	0,878	Yes	Yes	Yes
	MD4	0,924						
	MD5	0,730						
ETR	ETR1	0,926	0,618	0,766	0,827	Yes	Yes	Yes
	ETR2	0,668						
	ETR3	0,742						
DIST	DIST1	0,674	0,564	0,617	0,794	Yes	Yes	Yes
	DIST2	0,750						
	DIST3	0,823						
QL	QL2	0,827	0,710	0,864	0,907	Yes	Yes	Yes
	QL3	0,785						
	QL4	0,873						
	QL5	0,883						

Source: Data processed, (2021)

Table 4 shows the final outer model evaluation after removing invalid measurement indicators which ware not fit. There are 11 indicators omitted on the final model, i.e., FRM1, PR4, MR3, MR4, MR5, MR6, CO3, CO5, MD1, MD3, and QL 1. The final result shows the values that are in accordance with the test criteria of the reflective model.

Thus, the inner model test is conducted by evaluating the structural model by looking at the signification of the relationship between construct variables through the value of R^2, f^2, Q^2.

Table 5 Coefficient of determination

	R Square	R Square Adjusted
DIST	0,421	0,360
QL	0,123	0,109

Source: Data processed (2021)

Table 5 shows that considerations of the distribution channel selection by organic farmers can only be explained by the following considerations, i.e., internal farmer, product, market, costs, intermediary institutions, and ethics – with 42.1. The remaining 57.9 is explained by other variables. Furthermore, the influence of market selection on the level of welfare of farmers can only be explained by 12.3. The remaining 87.6 is explained by other variables.

Table 6 Effect size

	DIST	QL
FRM	0,156	
PR	0,199	
MR	0,001	
CO	0,047	
MD	0,076	
ETR	0,002	
DIST		0,140

Source: Data processed (2021)

Table 6 shows the f^2 of latent variables to distribution channel and distribution channel to quality of life. Overall, the influence of distribution channel selection is fairly influenced. The strong level faced from just two latent variables, i.e., FRM and PR. Meanwhile, variable market considerations, costs, middleman, and ethics show influences that fall into the weak category in influencing farmers in choosing distribution channels. Furthermore, variable distribution channels show an effect of influence that almost moderately impacts on farmers' quality of life.

Another test in structural measurements is Q^2 *predictive relevance* which serves to validate structural models. This measurement is considered good if the endogenous latent variable has a reflective measurement model. Q^2 *predictive relevance* is found to be good if the value is greater ($Q^2>0$) which indicates a good exogenous latent variable (corresponding) as a clarifying variable capable of predicting its endogenous variables. The Q^2 *predictive relevance* value can be calculated through the following formula.

$$Q2 = 1 - ((1 - R_1^2) \text{ x } (1 - R_2^2) \text{ x } ......x (1 - R_n^2))$$
$$= 1 - ((1 - 0,421) \text{ x } (1 - 0,123))$$
$$= 1 - ((0,576)x (0,877))$$
$$= 1 - (0,505)$$
$$= 0,495$$

Our Q^2 *predictive relevance* calculation result shows a predictive score of 0.495 or 49.5 %, indicating that the model has a predictive value (Hair et al. 2016). Furthermore, the inner model test is conducted by evaluating PLS bootstrapping. The structural model by looking at the signification of the relationship between construct variables through the *coefficient path, critical ratio, and P value.*

Table 7 *Path Coefficient*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (| O/STDEV |)	P Values
FRM -> DIST	0,346	0,332	0,096	3,582	0,000

PR -> DIST	0,358	0,354	0,102	3,522	0,000
MR -> DIST	0,041	0,045	0,147	0,282	0,389
CO -> DIST	0,260	0,255	0,143	1,818	0,035
MD -> DIST	-0,229	-0,252	0,120	1,905	0,029
ETR -> DIST	-0,040	0,015	0,120	0,332	0,370
DIST -> QL	0,351	0,379	0,101	3,481	0,000

Source: Data processed (2021). Significant level of 0.05, one tiled.

The results of the structural model are presented in Table 7. The route coefficient estimation reveals the estimated direction of the link between the latent variable and the manifest variable, which is derived through PLS bootstrapping. A measurement item is regarded to have a significant influence if the t-statistic is greater than the critical t-value (1.65) and the p-value is less than 0.05. Four latent factors, i.e., FRM, PR, CO, and MD, have an impact on distribution channel selection. H1, H2, H4, and H5 are acceptable. In FRM, our discovery supports the findings of Dlamini-Mazibuko et al. (2019), Hao et al. (2018), Kyaw et al. (2018), Soe et al. (2015), and Thamthanakoon (2018). In PR, our finding is consistent with Hao et al. (2018), Imam et al. (2014), Maniçoba & Silva (2008), Zinnanti et al. (2019), and Zwart & Mcleay (1997). In addition, our findings in CO align with Bhattarai et al. (2013), Dlamini-Mazibuko et al. (2019), Maniçoba & Silva (2008), Mariyono et al. (2019), and Negi et al. (2018), as well as with Thamthanakoon (2018) on MD.

However, there are two latent variables which have not affect to consideration of distribution channel selection, i.e., MR and ETR. Thus, H3 and H6 were rejected. This implies that our findings do not support Bhattarai et al., (2013), Kyaw et al., (2018), Maniçoba & Silva, (2008), Negi et al., (2018), Thamthanakoon, (2018), Zwart & Mcleay, (1997) in the case of MR, and Abuznaid, (2009), Demirel & Sahib, (2015); Kassem et al., (2021), and Saeed et al., (2001) in the case of ETR.

Overall, our test found that distribution channel selection has impact on improving farmers' quality of life. Our empirical test accepted H7 and supports previous findings, i.e., Mmbando et al., (2016); Parvathi & Waibel, (2016); Elias et al., (2016); Terano & Mohamed, (2014).

Table 8 Mann Whitney U test

Variable/s	Mann Whitney U	$|Z|$	Sig
FRM	270,500	-3,294	0,001
PR	416,000	-1,316	0,188
MR	438,500	-1,031	0,032
CO	476,000	-0,499	0,618
MD	368,500	-1,974	0,048
ETR	299,500	-2,922	0,003
DIST	486,000	-0,351	0,726
QL	349,500	-2,204	0,027

Source: Data processed, (2021)

We further discovered notable variances in the FRM, MR, ETR, and QL variables between Baznas and non-Baznas farmers. As shown in table 8, there are no differences in the PR, CO, and DIST variables between these two groups. These variables represent a value of $|z| > 1.96$ (2-tailed) and a significance level of < 0.05. The analysis indicates that there is no significant difference when the absolute value of the z-score is less than 1.96 (with 2 tiles) and the significance level is less than 0.05.

Discussion

1. Internal farmer to distribution channel selection
FRM reflected by capital, farm size, production quantity, level of accessibility and infrastructure and the farmer objective, shows significant influence on the consideration of organic rice farmers in choosing distribution channels. This means that if the consideration of farmers increases by one unit and other variables are considered constant, then, the change in selecting distribution channel will also increase by 0.346 times. Furthermore, if any addition of capital, farm size, production, quantity level of accessibility and objectives of farmers, then farmers are likely to choose another better distribution channel. The increase in consideration of channel selection to better channels is also considered real and has a significant influence.

However, further test showed there are significant differences in both groups and the finding accepts H_{1a}. This implies the results of descriptive analysis of the Baznas and non Baznas respondents' characteristics. The average score of the respondent answers shows that the score of Baznas farmers is greater than non Baznas farmers. It means that Baznas farmers consider capital, land area, production,

accessibility and their objectives. Furthermore, Baznas farmers are dominated by *mustahik* farmers, meaning they have the limitations to reach out another channel. However, for non Baznas farmers, indicators show sufficient consideration to market channels selections. This shows that the majority of non Baznas farmers can be considered more empowered than those of Baznas farmers.

2. Product to distribution channel selection
Product measured by level of perishability, quality and unit value has an effect to consideration of distribution channels selection and it shows significance different of both groups. This means that any increase in consideration of product variables and other variables is considered constant or if the organic grain or rice products owned by farmers are getting better and then it is possible that changes in distribution channel selection will also go up or better by 0.358 times. This finding rejects H_{2a}. That is, consideration of product characteristics is very related to price fixing. The farmers will sell their organic grain or rice to organic channel too. This occurred due to the market offer for organic grain or rice is higher compared to that of non-organic ones.

3. Market to distribution channel selection
Market consideration does not impact on the selection of distribution channel. That is, if the state of the intended market is getting better or rising by one unit and another variable is considered constant, then the change in market selection will also rises by 0.041 times. This finding is suspected by the limited alternative market that can absorb organic rice grain from farmers at the expected price. Furthermore, the pricing structure of the organic rice market in its practice is the same as the market practice on non-organic rice

products and occurs monopoly. The amount of grain purchases on each alternative channel is not a benchmark gapoktan, so whatever stock offered by farmers is always received by gapoktan.

Further analysis shows no significant difference of Baznas farmer and non-Baznas farmer according to consideration of market indicators, implying H_{3a} is acceptable. The score of indicators of market is almost equally good on the market channels of farmers Baznas and non-Baznas especially on price indicators. The occurrence of monopoly or oligopoly markets resulted in the function of demand and supply not running well on both groups.

4. Cost to distribution channel selection

Cost has a positive impact on the selection of distribution channel. Meaning that if there is an increase in marketing costs of one unit and other variables, it is considered constant then the selection of market channels by farmers will also change by 0.260 times. Furthermore, in the event of an increase in transaction costs, an increase in the cost of the quote, and an increase in the change in payment methods and the level of negotiation, then farmers may make changes to the market selection.

There is no significance difference of both groups, implying H_{4a} is rejected. Baznas farmer and non-Baznas farmer agree that consideration of cost has an affect both in selecting their channels. However, the consideration of alternative market channels on both groups is very limited (see Figure 2 and 3). Costs have been determined monopolistically by market channel and negotiation function seldom matches the expectations of the farmers. These cause no significant difference to the farmer's channel consideration of both groups. However, in the market conditions for organic grain or rice that are considered by farmers to be

limited, the fixed cost factor becomes the main factor influencing farmers in selecting a market channel.

5. Middleman to distribution channel selection

Middleman consideration impacts on the selection of distribution channels, meaning that any change in consideration of farmers' assessment of intermediary institutions increases by one unit, there will be a decrease in consideration of the selection of other distribution channels by 0.229 times. Our finding shows that the level of closeness of intermediary institutions with farmers, the commitment of intermediary institutions with farmers, as well as the support of intermediary institutions to farmers, are well established so that consideration of the selection of other distribution channels hardly occur. The results also showed the decrease in consideration of intermediary institutions towards the selection of other market channels.

Our analysis showed a difference in consideration of middleman by Baznas farmer and non-Baznas farmer, indicating the H_{5a} is accepted. Baznas farmer shows greater average score than non Baznas farmers, meaning that the majority of Baznas farmers consider the selection of distribution channels based on the factors of existing intermediary institutions. Indicators of trust, commitment and support channel are the key points in that regard. Meanwhile, the majority of non Baznas farmers is quite influential in considering the intermediary institutions for distribution channels.

6. Business ethic to distribution channel selection

Business ethic (ETR) does not impact on the consideration of farmers in selecting distribution channels. This means that if there is an increase in the awareness of

business ethics in accordance with *Islamic compliance* and consideration of the benefits and blessings of the marketing system, there will be a decrease in farmers for consideration of choosing another market channel by 0.040 times. However, business ethics is not expected to be a factor that shows significant results towards the consideration of farmers' choosing distribution channels, implying H_{5a} is accepted. Further analysis shows a difference between Baznas farmers and non-Baznas farmers related to consideration in selecting distribution channel, implying H_{6a} is accepted. This finding assumes that Baznas farmer is more concerned with business ethics in accordance with the principles and values instilled by Baznas, even though the available market is considered to be limited.

7. Distribution channel and quality of life
Distribution channel consideration has direct impact on improving quality of life of organic farmers. This means that any change in the selection of farmers' distribution channels by one unit and other variables are considered constant, it will improve the quality of life of farmers by 0.351 times. Furthermore, the effect felt by farmers on the selection of market channels is the spirit and satisfaction of farmers for the return received, the improvement of the quality of life of farmers, especially in terms of health and family education, increased in income, and increased sin ocial care for nature and fellow human beings.

Furthermore, distribution channels of Baznas and non-Baznas have not significant differences and this finding rejects H_{6a}. Both Baznas farmer and non-Baznas farmers choose indirect distribution channels in the process of selecting market channels. Non-Baznas farmers have more alternative indirect market channels than Baznas farmers. Thus, this result has an impact on the difference in the quality of life of Baznas and non-Baznas farmers, which is sufficient to reject H_{7a}.

CONCLUSION

This study empirically tested the consideration of organic rice farmers in selecting distribution channel and its impact on farmers' quality of life, using Islamic business and IFOAM principles. However, this research found that the analysis of the market approach in determining the market channel considerations for organic rice farmers can only affect in sufficient categories. This means that there are still many obstacles experienced by organic rice farmers related to the organic rice market. There are different characteristic of Baznas and non-Baznas farmers according to owned asset to support their business and improve their quality of life. The result concluded that market of rice organic has been limited for both groups of farmers. Furthermore, those farmers unable to reach their consumer directly due to the organic food market standard as regulated by Permentan.

Our results showed that there were only four factors significantly supported the consideration of farmers' choosing distribution channels, i.e., internal farmer assets, product, cost, and middleman. This study found that market and business ethics were not impactful for distribution channel selection. However, there were differences between Baznas and non Baznas farmers in several indicators, i.e., internal farmer assets, market, middleman, and business ethics, with no differences in the impact on farmers' quality of life in both groups.
This finding has implications for stakeholders, especially for Baznas. The welfare of farmers becomes an important priority for sustainable agriculture.

Strategy is the application of assistance in the marketing process and can be done fairly for both parties, especially to improve market consideration factors, i.e., the pricing system for farmers. Furthermore, improvised application of marketing ethics in accordance with Islamic compliance is advisable for perfect market competition. The point of ethics is expected to be more demonstrated by Baznas in order to be a pioneer as well as a characteristic of Baznas and its market channels in supporting ethical markets, especially in accordance with the findings of this study.

However, **t**his study has limitations in generalizability due to the sample size. This opens space for future researches to multiply the number of respondents for generalization accuracy purposes. The finding of this study needs likely to be developed to test the Islamic marketing theory and its application on agricultural sector.

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