



## The Effect of Vertical Coordination on Indonesian Dairy Industry Performance on Quality: A Comparison of Two Regions

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### Abstract

The changes in institutional environment that have occurred in the Indonesian dairy industry have influenced the approach taken by the industry in managing their partnership with dairy cooperatives and with Indonesian dairy farmers. Previous studies discovered that the increasing milk quality standard required by consumers is driving the industry to apply vertical coordination. This means that the industry (as a buyer) is more closely aligned with producers (seller). In relation to the issues above, this paper reviews the effect of vertical coordination on the performance of the Indonesian dairy industry especially on milk quality. The research is based on a comparative case study of the dairy value chain by comparing two regions in Indonesia, West Java and East Java. This study used the number of germ content (total plate count) as indicator of milk quality. By interviewing 29 key informant of the value chains, the study shows that there are strong differences in implementing vertical coordination of the milk value chain in each of two regions. In West Java, the seller (cooperatives) are more reluctant to close a contract with the buyers (industry) than in East Java. East Java has strong power to implement vertical coordination because this region has only one major dairy industry. Furthermore, vertical coordination has a positive effect on improving the quality of fresh milk in both regions, though the study found that East Java has higher milk quality than West Java.