The relationship between strategic choices and performance in Italian food SMEs: a resource-based approach

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Paper prepared for presentation at the EAAE 2011 Congress
Change and Uncertainty
Challenges for Agriculture,
Food and Natural Resources

August 30 to September 2, 2011
ETH Zurich, Zurich, Switzerland

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Abstract. In the context of progressive rise of the competition among firms, due to the increasing globalisation, it is interesting to understand the potential sources of competitive advantage in order to set up a successful strategy. The theory of Resource-based View used in this framework examines the connection among internal resources and strategic choices, and how the latter affect firm performance.The firm strategy is determined by available resources and capabilities which are deployed to obtain a good performance. Therefore, strategic choices act in between resources and performance.The purpose of the paper is to evaluate the relationship between strategic choices and performance achieved by food SMEs, based on a set of distinctive resources. This approach is assessed in food SMEs located in Italy, by applying a Structural Equation Model. The results of the empirical analysis showed that, in the food sector, strategic choices based on innovation, product positioning, and chain relationship development have positive effects on performance, but only if distinctive resources and capabilities are considered. Innovation plays a capital role because of its direct as well as indirect effects.

Keywords: resource-based view, strategic choices, SMEs, food sector, structural equation model.
JEL: L11, L25, L66, Q13

1. Introduction

The progressive rise of the competition among firms, at national and international level, over the last twenty years, due to increasing globalisation, has led to a growing interest in understanding the potential sources of competitive advantage in order to set up a successful strategy (Grant, 1996; Banterle and Carraresi, 2007). The theoretical Resource-Based View model is inserted in this framework because it examines the strict connection among internal resources and performance of the firm (Barney, 1991; Wernerfelt, 1984). As each firm could exploit different kind of resources and capabilities organised into different strategies, the firm heterogeneity is the focus of the analysis.

Even if the economic literature on strategic management models is rich of contributes about this field of research, the empirical applications are still limited and rare, especially in the food sector. Therefore, this theoretical approach has been utilised in this paper to evaluate relationships among food firm performance, the resources owned, and the strategies carried out by the firms.

As in the Italian food sector there is a high incidence of small and medium enterprises (SMEs), which have to face up the growth of the competition through the exploitation of peculiar resources and capabilities and the choice of appropriate strategies, the analysis has been addressed to this category of firms.

The purpose of the paper is to assess the effect of the strategic choices on the food SME performance, basing on the fact that the strategies act as mediator between resources and performance. In this way, we will evaluate the relationship between strategies and performance, where strategies are the expression of a set of peculiar resources. This purpose will be assessed in the food SMEs located in Lombardy, a Northern Italian region, by applying a Structural Equation Model (SEM).

In the analysis, the food firm resources are grouped in five categories: innovation, marketing, network, human resources, and knowledge. Based on these resources and capabilities, three strategic choices have been identified: innovation, product positioning, and relationship development. Human resources and knowledge are not considered as

strategies, in this work, but as intangible superior resources. The paper is structured as follows: the conceptual framework is explained in section 2, sample and data collection are presented in section 3, the characteristics of the SEM are explained in section 4, the results are set down in section 5, whereas in section 6 we have formulated some concluding remarks.

2. Conceptual framework

The traditional version of the Resource-based View approach (RBV) is focussed on the link between the internal characteristics of the firm and the results obtained. In particular, considering that the firms of a sector can be heterogeneous relatively to the strategic resources controlled, and that the resources can be not perfectly transferable among firms, the heterogeneity could last over time, as well as the competitive advantage achieved. Therefore, in this perspective firm resources play a crucial role in the achievement of competitive advantage.

New organisational resources may increase the flexibility in strategic choices, by allowing firms to benefit from new opportunities (Rangone, 1999). This kind of strategic behaviour, where resources and integrated organisation represent the fundamental aspects, allows the firm to reach high quality in terms of competencies, personal tasks and liabilities within the company and in the interrelationships with other agents (Brush and Chaganti, 1998). The RBV could be considered as an "inside-out" process of strategy formulation: starting from the internal resources of the firm, their potential for value generation has to be assessed in order to define a strategy allowing the firm to achieve the maximum value in a sustainable way (Grant, 1991; Barney, 1986).

In this way, the firm strategy is determined by the resources available and the capability to deploy them in the best way to obtain a good performance. This concept could be expressed with the notion of "co-alignment" or "fit", namely there are indirect effects between an antecedent variable and its consequent variable (Venkatraman, 1989). Therefore, strategy acts as a mediator between resources and capabilities and performance. As Bergeron *et al.* (2004) state, "firms whose strategy and structure are aligned should be less vulnerable to external change and internal inefficiencies and should thus perform better".

The importance of fit is also underlined by Edelman *et al.* (2005) which made a study on SMEs about the co-alignment between resources and performance mediated by strategy. The SMEs could achieve good results if they use their resources through a successful selection of strategies which will lead to profitable performance. Moreover, in the manufacturing firms, the strategic alignment between resources, strategic choices and performance ensures the implementation of the strategy at process level, and gives the opportunity to develop interactively both products and associated processes. This is particularly true in the case of differentiation strategies, where it is needed a good coordination to deliver multiple product characteristics (Chenhall, 2005).

In order to apply the RBV theory and the model of strategy mediation in the food sector, we selected the main resources and capabilities on the basis of which firms formulate their strategic choices.

The most important resources of firms are those that are durable, difficult to identify and understand, imperfectly transferable, not easily replicated, and in which the firm possesses ownership and control. In this sense, we selected the resources and capabilities

connected to innovation, marketing, network, human resources, and knowledge as in the literature we found that they are most appropriate to articulate the success strategies in the case of food firms.

Regarding the strategies, we identified three general strategic choices, not sector-specific, but connected with the capabilities previously outlined in order to apply them to the food sector. Hence, the selected strategies are the following: innovation strategy, product positioning strategy, relationship development strategy.

The strategy based on **innovation** focuses on product, process, and service innovation of the firm. Through process innovation the firm can benefit from a higher labour productivity, and a superior quality of final product (Schiefer and Hartmann, 2008). Through product and service innovation, the firm can improve the performance due to a better capacity to profit by the market opportunities, to develop a more attractive image of its products for the consumers, and to keep high its turnover by exploiting the lifecycle of the new products. Innovation is very important in order to look ahead and understand the features of the sector where firms operate as well as the customer needs. Indeed, innovation activities could interact with marketing activities for the satisfaction of consumer preferences.

Relatively to the **product positioning**, it is connected with all the decisions about pricing, distribution, advertising channels, sale markets, and general investments in the marketing area, all aimed at obtaining a competitive advantage (Horska, 2004). Moreover, it is valuable to analyse the reputation and the brand recognition owned by the firm, as the benefits coming from the quality of the products are often associated with the achievement of a good reputation (Sonobe *et al.,* 2004), which leads to further benefits such as bargaining power towards suppliers and towards consumers (premium price), and better chance to obtain success when introducing an innovation (Abimbola and Kocak, 2007).

The **relationship development** is aimed at building stable connections with the other agents of the supply chain. The vertical relationships with suppliers and customers are extremely important to guarantee the consumers about the products in terms of safety and quality. Indeed, the safety and quality level of the products depends not only on the production process itself, but also regards the entire chain involving raw materials suppliers and intermediaries, before arriving to the consumer (Ruben *et al*., 2006). Other benefits coming from good relationships with other agents of the supply chain are, for example, the reduction of uncertainty through better information flow along the chain, cost reduction through keeping the same clients and suppliers, productivity increase through a faster decision making process (Schiefer and Hartmann, 2008). Moreover, the horizontal relationships with other firms and the collaboration with institutional organisations could determine the acquisition and sharing of resources, competencies and information, and a major easiness in the monitoring of the marketplace situation (Mamaqi and Albisu, 2008).

Human resources and knowledge have a direct effect on performance as they can be employed in each strategy. **Human resources** play an important role for the achievement of competitive advantage (Schiefer and Hartmann, 2008; Furtan and Sauer, 2008). First of all, the firm strategy on the basis of human capital characteristics, in terms of knowledge of product, customers and suppliers, and market (Edelman *et al.*, 2005). Furthermore, there is empirical evidence of human resources affecting performance

(Huselid and Becker, 1996). This relationship is supported by RBV theory because firms could select employees with high ability and train them in a way to reach unique skills, difficult to imitate by other firms, and this could lead to a sustained competitive advantage (Huselid *et al.*, 1997).
The **knowledge** concerns the acquisition of information from the market, and the dissemination of this information whithin the company in order to take appropriate strategic decisions. The knowledge of the market and its sharing among different areas of the firm contribute to the creation of a rare, not-perfectly imitable and intangible resource (Hunt and Lambe, 2000).
Based on this conceptual framework, the hypotheses which will be tested with the structural equation model are direct and indirect relationships. The direct relationships are the following:

- *H1: There is a positive relationship between "Innovation" and performance.*
- *H2: There is a positive relationship between "Product positioning" and performance.*
- *H3: There is a positive relationship between "Relationship development" and performance.*
- *H4: There is a positive relationship between "Human resources" and performance*
- *H5: There is a positive relationship between "Knowledge" and performance*

The indirect relationships are:

- *H1-1: There is an indirect positive relationship from "Innovation" to "Product positioning"*
- *H3-1: There is an indirect positive relationship from "Relationships development" to "Product positioning"*

3. Sample and data collection

A survey was carried out through a questionnaire aimed at collecting data representing the resources and capabilities of the food SMEs. It is composed by 43 questions, divided into 7 sections, reflecting the resources and the capabilities constituting the strategies discussed in the conceptual framework (innovation, product positioning, relationship development, human resources, knowledge), plus a section concerning general data of the firm, and another one regarding firm performance, that is the dependent variable.
With reference to the sampling, the survey is addressed to the food SMEs located in Lombardy, considering SMEs those firms counting from 10 to 250 employees[1]. The activities included in the food sector are the ones codified in the category 15 of the NACE rev.1 classification, namely "Food and drink industries", which includes all the food processing activities and excludes the farms.
As it was needed to cross data from the questionnaire with data from balance sheets, we utilised a database with 412 balance sheets of Lombard food SMEs, which represent a significant part of the food SMEs operating in the region. This database comes from a consultant company called *Centrale dei Bilanci*.

[1] Micro firms with less than 10 employees were excluded because they are too different in terms of resource endowment and strategies implemented that the comparison would not be fruitful.

The final sample is constituted by 69 firms (16.7% response rate). This is a probabilistic sample created following the procedure of random selection (error: 10%; confidence level: 95.5%) from a finite population.
The 75.4% of the sample have between 10 and 50 employees. The main sectors are meat and dairy, which are composed respectively by 18 (26.1%) and 13 firms (18.8%). Bakery and confectionery follow with 5 firms, and lastly grain mill products and animal feeds with 4 firms. The others sectors are represented by few firms.
Regarding innovation, the activities can be divided into three kinds: development of new processes, development of new services, and creation and/or modification of products. Obviously, these activities could exist at the same time, as the creation of new products could imply to modify some parts of the production process or to add new services for the consumers.
New processes are developed by 42% of the firms which introduce them almost continuously (Table 1). The 36.2% of the firms modify the processes with less frequency, whereas 21.7% of the sample usually does not develop new processes. Concerning the development of new services only 25.4% of the sample declares to do it always or often. A higher percentage (37.3%) develops new services sometimes and the same percentage seldom or never.

Table 1 – Development of innovative activities

	Development of new processes			Development of new services		
	N	%	% cumulate	N	%	% cumulate
Always	10	14.5	14.5	4	6.0	6.0
Often	19	27.5	42.0	13	19.4	25.4
Sometimes	25	36.2	78.3	25	37.3	62.7
Seldom	6	8.7	87.0	11	16.4	79.1
Never	9	13.0	100.0	14	20.9	100.0
Total	69	100.0		67	100.0	

Source: own survey

Results are very different among firms regarding product innovation. Indeed, there are firms which, in the last five years, have not launched, modified or retired any product in the market, whereas other firms reach the value of 100 products totally new, modified or retired. Therefore, the standard deviation around the average is very high, revealing a scattered distribution of values.
Referring to product positioning, SMEs rarely have an area specialised in the marketing activities, as employees are focused on more than one task. On average firms have two employees for marketing, but the values range from zero to 30, with a high standard deviation (Table 2).
A great part of firm total production is sold with private brands (own industrial brand), and the average value is 63.3% of the turnover for each firm. There are also firms which deliver products to be sold with the retailer brand (on average 14.2% of the turnover). Firms are divided into two main groups regarding the perceived quality: those that perceive their products of good quality with a good ratio quality/price (average 48.2%), and those that perceive them of high quality (average 25%). In both cases the standard deviation is quite big, as the values are distributed from a minimum of zero to a maximum of 100%.

Table 2 – Activities of marketing

	N	Minimum	Maximum	Average	Std. Dev.
Marketing area					
Number of employees in marketing	67	0	30	2.19	4.80
Selling markets (% turnover)					
local and regional market	69	0	100	21.62	35.35
national market	68	0	100	60.37	37.37
EU and extra-EU market	68	0	93	17.13	22.27
Distribution channels (% turnover)					
wholesalers	66	0	100	29.52	35.92
super- and hypermarkets	67	0	100	32.01	34.07
specialised shops	66	0	70	3.94	11.55
other channels	68	0	100	32.4	36.79
Branding (% turnover)					
private brand	65	0	100	63.31	38.93
private + collective brand	65	0	100	6.00	20.16
retailer's brand	65	0	100	14.23	23.79
others (no brand and retailer's+collective brand)	65	0	100	6.32	17.81
Perception of quality (% turnover)					
high quality	67	0	100	25.00	34.66
peculiar characterised and consumer focused	67	0	70	8.01	17.07
good quality and good ratio quality/price	67	0	100	48.25	40.85
average and mass products without any distinctive characteristics	67	0	100	9.25	21.76

Source: own survey

With regard to relationship development, the most developed relationships in our sample are written contracts both with customers and suppliers, which represent 86.8% and 80.9% of the sample, respectively. Nevertheless, oral agreements are also quite frequent, especially with customers (47.1%). Vertical integration is less developed, even if 25% of the sample is upstream integrated and 22.1% downstream. Instead, cooperatives are very few in the sample.

4. Structural Equation Model (SEM)

The descriptive analysis was also useful to select the main indicators for the latent variables representing the strategic choices. Once carried out the preliminary analysis, we estimated the structural equation model (SEM) using the partial least squares method and the so called PLS-Graph software.

In order to test the hypotheses and evaluate the relationships between strategic choices and performance, we ran a Structural Equation Model (SEM), where the dependent variable is the firm performance, and the independent variables are innovation strategy, product positioning, relationships development, human resources, and knowledge, all being latent variables (Figure 1).

In order to select the indicators describing the strategic choices and the resources of the food firms of the sample, we carried out univariated, bivariated analysis and PCA on all the questions of the questionnaire. In this way the indicators selected have been grouped into the latent constructs to apply the SEM (Table 3).

Fig. 1 –SEM model

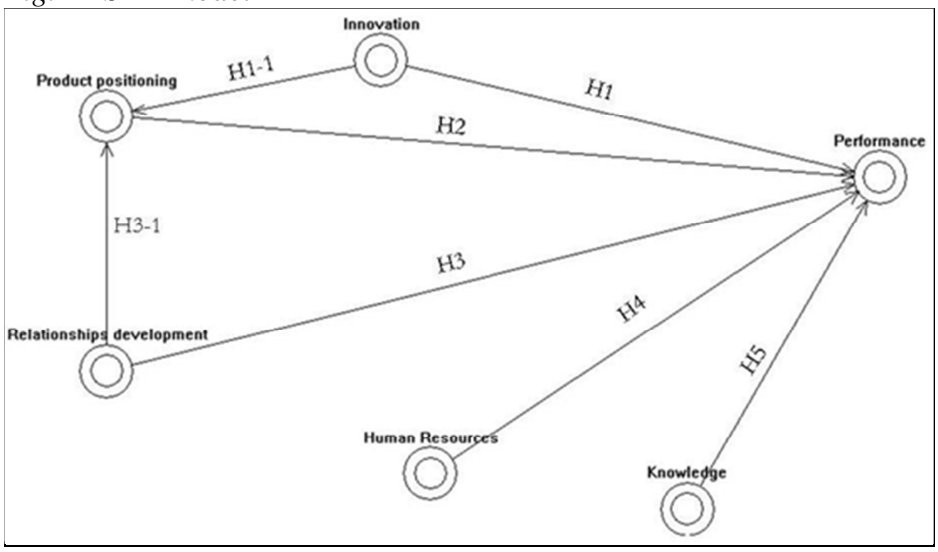

Table 3. – Latent variables and their indicators

Variables and indicators	Measure	Category number
Innovation strategy (exogenous formed latent variable):		
Number of new products in the last 5 years	continue	
Number of modified products in the last 5 years	continue	
Kind of resources utilised in R&D	categorical	1 - 4
Investment in new equipment	ordinal	1 - 5
Costs for R&D	ordinal	1 - 5
Product positioning strategy (exogenous formed latent variable):		
Percentage of private branded products	continue	
Price positioning in respect of competitors	ordinal	1 - 5
Perception as high quality product	continue	
Perception as product with a good ratio quality/price	continue	
Relationships development strategy (exogenous formed latent variable):		
Importance of trust	ordinal	1 - 5
Importance of commitment	ordinal	1 - 5
Importance of communication	ordinal	1 - 5
Human resources (exogenous formed latent variable):		
Team management capacity	ordinal	0 - 5
Propensity to personal relationships	ordinal	0 - 5
Distribution of production bonus	ordinal	0 - 5
Distribution of rise in wages	ordinal	0 - 5
Possibility of promotion in career	ordinal	0 - 5
Knowledge (exogenous formed latent variable):		
Acquisition of information about market	ordinal	1 - 5
Acquisition of information about suppliers	ordinal	1 - 5
Acquisition of information about customers	ordinal	1 - 5
Acquisition of information about consumers	ordinal	1 - 5
Acquisition of information about direct competitors	ordinal	1 - 5
Use of acquired information for planning strategy	ordinal	1 - 5
Spreading of acquired information to take decisions	ordinal	1 - 5
Performance (endogenous formed latent variable):		
Return on sales (average 2005-2006-2007)	continue	
Return on investment (average 2005-2006-2007)	continue	
Perception of evolution of performance in respect of competitors	ordinal	1 - 5

5. Results

Starting from the relationships among indicators and latent variables, we can see that the majority of them result significant, looking at the value of t-test generated with the jackknife resampling (Table 4).

Table 4 - Estimated coefficients of SEM for relationships between indicators and latent variables

Path estimated for outer model	Estimated Structural Equation Model	
	Coefficient β	t-value (jackknife resampling)
Relationships indicators => latent variable		
Innovation		
Nr.new products => Innovation strategy	-0.043	4.784 ***
Nr. modified products => Innovation strategy	0.011	1.043
Kind of resources for R&D => Innovation strategy	-0.019	2.584 ***
Investment in new equipment => Innovation strategy	-0.010	3.995 ***
Costs for R&D => Innovation strategy	0.026	0.391
Product Positioning		
Percent. private branded products => Product positioning strategy	0.014	2.559 ***
Price positioning => Product positioning strategy	-0.008	3.977 ***
Perception as high quality product => Product positioning strategy	0.015	3.940 ***
Percept. product with a good ratio quality/price => Product positioning strategy	0.020	4.678 ***
Relationship development		
Importance of trust => Relationships development strategy	0.529	2.064 **
Importance of commitment => Relationships development strategy	0.150	0.922
Importance of communication => Relationships development strategy	-0.721	4.773 ***
Human resources		
Team management capacity => Human resources	-0.238	2.658 ***
Propensity to personal relationships => Human resources	0.693	1.612
Distribution of production bonus => Human resources	0.412	0.032
Distribution of rise in wages => Human resources	-0.417	3.241 ***
Possibility of promotion in career => Human resources	0.025	2.340 **
Knowledge		
Information about market => Knowledge	-1.071	0.371
Information about suppliers => Knowledge	-0.765	1.285
Information about customers => Knowledge	0.536	1.410
Information about consumers => Knowledge	0.252	3.989 ***
Information about direct competitors => Knowledge	0.493	0.584
Use of information for planning strategy => Knowledge	0.316	2.287 **
Spreading of information to take decisions => Knowledge	0.249	4.006 ***
Performance		
Return on sales (average 2005-2006-2007) => Performance	0.114	4.764 ***
Return on investment (average 2005-2006-2007) => Performance	-0.081	4.564 ***
Perception of evolution of performance => Performance	0.035	2.418 **
R^2		39.6%

*** p<1%, ** p<5%, * p<10%

Source: own calculations

In particular, the indicators which represent the main resources and capabilities to be exploited to set up an efficient innovation strategy are the number of new products, the kind of resources utilised in R&D activities, and the investments in new equipment.

Regarding the product positioning strategy, all the selected indicators resulted significant, whereas the significant ones when explaining the relationship development strategy are only the importance of trust and communication in the collaboration with suppliers.
The latent variable of human resources is best explained by the team management capacity of the employees and the distribution of incentives to improve productivity, as rise in wages and promotion in career.
To contribute to knowledge the significant indicators are the acquisition of information about consumers and the utilisation of the information for planning strategy and taking appropriate decisions.
Finally, all the indicators selected for performance are revealed significant.
Even though the resources identified by the significant indicators are the most important for setting up an efficient strategy and being competitive in respect of competitors, it should be also underlined that the sample is resulted to have a low variability.
The direct relationships among innovation, product positioning, relationships development, and performance are significant (Table 5). Therefore, the adoption of this kind of strategic choices affects the variability of the performance.

Table 5 – Estimated coefficients of SEM for the relationships among latent variables

Path estimated for outer model	Estimated Structural Equation Model	
	Coefficient β	t-value (jackknife resampling)
Direct relationships between latent variables		
Innovation => Performance (H1)	0.116	4.610 ***
Product positioning => Performance (H2)	0.160	3.526 ***
Relationships development => Performance (H3)	0.197	3.570 ***
Human resources => Performance (H4)	-0.290	2.968 ***
Knowledge => Performance (H5)	-0.462	0.061
Indirect relationships between latent variables		
Innovation => Product positioning (H1-1)	0.459	3.0778 ***
Relationships development => Product positioning (H3-1)	-0.169	3.8307 ***
R^2		39.6%

*** p<1%, ** p<5%, * p<10%

Source: own calculations

The relationship between human resources and performance is significant but with negative sign. This could be explained with the fact that the human resources represent a high labour cost for the firm, thus they could affect the performance in a negative way.
On the contrary, the knowledge does not result significant, and so the capacity to acquire information does not affect the variability of the performance. This result could happen because of the small dimension of the firms, which are not able to carry out efficient market analysis about consumers, and also could be lacking in capacity to plan and implement an efficient strategy.
Indirect relationships have different results. Innovation reinforces product positioning to achieve better performance, but relationship development has a negative effect on product positioning and diminishes its effects on performance.
The value of the coefficient of adjustment of the model, R^2, indicates that the variables in the model bring over 40% of the variability of the performance.

As a consequence of these results, we can comment about the hypotheses. The hypotheses 1, 2 and 3 are highly confirmed (Table 6). The indirect relationship H1-1 is confirmed, whereas the hypotheses 4, 5 and 3-1 are rejected.

Table 6 – State of confirmation of hypotheses

Hypotheses	Confirmation
Direct relationships	
H1: There is a positive relationship between the Innovation strategy and performance	++
H2: There is a positive relationship between the Product positioning strategy and performance	++
H3: There is a positive relationship between the Relationships development strategy and performance	++
H4: There is a positive relationship between Human resources and performance	-
H5: There is a positive relationship between Knowledge and performance	-
Indirect relationships	
H1-1: There is an indirect relationship from the Innovation strategy to Product positioning strategy and both of them directly affect performance	+
H3-1: There is an indirect relationship from the Relationships development strategy to Product positioning strategy and both of them directly affect performance	-

(-): not confirmed, (+): confirmed (p<5%), (++): highly confirmed (p<1%)

Source: own calculations

6. Concluding remarks

There are significant and positive direct relationships between firm strategic choices (innovation, product positioning and relationship development) and performance. Consequently, SMEs could influence their performance by acting on those main resources and capabilities. The relationship between human resources and performance is significant but with negative sign, against our a priori hypothesis. This could be explained with the fact that the latent variable of human resources is mainly characterised by the incentives distributed to the employees representing a cost for the firm, so it could affect the performance negatively. Knowledge does not affect performance. This result could be explained because of the small dimensions of the firms, not being able to acquire information.

Regarding the indirect relationships, innovation positively affects performance through product positioning. However, relationship development does not comply with the expected positive relationship toward product positioning.

Thus, innovation plays a crucial role when considering its direct and indirect effects. Moreover, it is confirmed that it is really important to meet consumer needs, through continuous delivery of products shaped on their needs; for this reason the development of new products and the investment in R&D result to be fruitful, also when linked to product positioning activities, which allow the firm to carry out the marketing mix and chose the most appropriate consumer target able to reach with the firm resources.

The development of relationships along the supply chain is also revealed to be important, as they allow improving the level of products quality through contacts with suppliers, information about consumer needs through relations with clients and retailers, and to guarantee products safety and quality.

Therefore, in the present economic scenario, characterised by increasing competition and market internationalisation, food SMEs could concentrate their attention on developing strategic choices, which derive from specific resources and capabilities.

Nevertheless, these results are limited in certain aspects as the sample is relatively small to derive definitive conclusions as, in particular, firms are characterised by low variability, namely they have similar features and behaviour, which reduces the possibility to represent the real population.
Future research should be addressed to enhance the sample, particularly on those categories of firms less represented in this work, in order to improve the significance of these results.

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