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Creation and governance of value in agricultural cooperation: the role of policies

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draft

Summary

The paper focuses on a new theoretical-methodological approach to interpreting functional transformation processes of farms located in rural areas and marked by a delay in development. We have defined a theoretical paradigm of value portfolio (VP) which considers, in a new light, multifunctional agricultural farms as an ensemble of governance structures optimizing the creation of value.

The need to validate the OVP functionality has led us to identify a new methodological approach referred to as the Value Portfolio and Multifunctional Governance Analysis (VPMGA). This analysis embeds value chain analysis and governance value analysis and at the same time attempts to overcome the “sectoral” limits representing also a new and further development. We deem, in fact, that the VPMGA best responds to the specificities of multifunctional agricultural farms participating in cooperatives. Through the VPMGA we have identified four determining family variables which are internal and external to the farm (internal resources, market, territory, policies). We have also assessed the functional links with the boundary shift processes and the mechanisms governing transactions and the creation of an optimal value portfolio.

In this way, the VPMGA can be a tool to inform policy makers, especially in the light of the new challenges facing rural development.

Keywords: Multifunctionality, cooperation, value creation, policy.
JEL: Q12, Q13, Q18, Q19

1. Introduction

This paper aims to analyse new agricultural models and value creation processes within multifunctional farms in the light of the new political and institutional and competitive scenarios from a theoretical-methodological and analytical viewpoint.

In theoretical and methodological terms, the analysis models of the new pathways to value creation in multifunctional farms have been investigated by means of the boundary shift strategies (Banks, Long, van der Ploeg, 2002) in order to understand the functional transformation processes of such farms. In this light, a new theoretical paradigm referred to as the optimal value portfolio (OVP) has been defined and proposed based on a detailed review of the relevant literature. The OVP looks beyond the pure profit-making logic and it innovatively regards a multifunctional farm as an ensemble of governance structures through which value creation processes can be optimized. However, this analysis requires the assessment of the “global value” created by different value chains.

The empirical validation of the optimal value portfolio proposed in this paper, has led to a new methodological approach known as the Value Portfolio and Multifunctional Governance Analysis (VPMGA). The VPMGA represents a substantial and innovative development by combining the existing models of value chain analysis and governance value analysis. On integrating the classic models existing in the literature, the VPMGA seems to best suit the specificity and complexity of multifunctional farms thereby allowing full comprehension of the mechanisms of value creation and governance and (re)interpretation of the role and functions of multifunctional farms and of rural areas.

In order to test this methodological approach, an empirical analysis has been carried out on selected agro-food chains.

The implications of the theoretical model have allowed us to put forth new assumptions on the types of multifunctional farms operating in the specific agro-food chains under review. We have also
investigated the role played by these farms in the creation of value compared to the current environmental, economic, social and territorial order. The model may be used a useful tool for future scientific hypotheses and policies aimed at rethinking the relations between agricultural and the institutional, economic, social and environmental context. In this way, multifunctional farms may be steered towards multi-value strategies thereby also favouring new forms of competitiveness of agriculture.

2. Theoretical background

2.1. Functional transformations of farms and rural areas: processes of value creation

The new European and international competitive scenarios, the changes affecting economics (and agriculture) and society and the new territorial framework over the last decades have called for a rethinking of the functions of agricultural firms and their multi-dimensional interactions. At present, the theoretical debate focuses on the relationship between agricultural and agro-food firms, production territories and rural development (Kaiser, 1990; Iacoponi, Marotta, 1995; Iacoponi, 1996; De Haan, Long, 1997; De Benedictis, De Filippis, 1999; Esposti, Sotte, 1999; Marsden, 1999; Murdoch, 2000; Ploeg van der, Renting, 2000; Basile, Cecchi, 2001; Basile, Romano, 2002; Dwyer et al., 2002; Saraceno, 2002; Cloke, 2006; Marini, Mooney, 2006; Ray, 2006).
The development of economic and social dynamics and the renewed social needs associated with the new behavioural and cultural values and tendencies have led to new needs, expectations and life styles since the 1980s and, consequently, to new citizen and/or consumer behaviour. Consumers now show a greater awareness of environmental issues, healthiness and functionality of agro-food products as well as a new relationship between nutrition and wellbeing, that is quality of life. These new intangible needs have characterised a new demand of rurality (Iacoponi, 1996), which accounts for the restoration of activities and functions of the rural social and production system.
The interaction between these new social needs and the productive function of the agricultural and rural sector has boosted market development posing new challenges to agriculture. The reformed Common Agriculture Policy (CAP) has attempted to respond to the challenges by promoting and supporting a multifunctional and differentiated “European agricultural model” aimed at enhancing the social functions of agriculture. By producing both food products (primary function) and broadened/deepened and public goods (care and educational farms, farm houses, landscape and environmental protection and conservation services, quality and typicality of produce, agro-food processing) (secondary function), this model meets the new citizens’ or consumers’ needs and wants. These secondary activities/productions/functions, influenced directly by the new consumer’s demands, have paved the way to innovative forms of value creation aimed at repositioning farms in a more competitive way.

All these processes together, which have been accompanied by the consolidation of the post-fordist development model and by the crisis of the urban-centric model, have laid the foundations for a new “paradigm of rural modernity” (Iacoponi, Marotta, 1995; Iacoponi, 1996). This paradigm is essentially based on a deep re-interpretation of rural areas, agriculture and farms within an integrated rural development and a multifunctional and sustainable agricultural (and farm) model. This new perspective on rural areas and agriculture has reinforced the European agricultural model based on neo-endogenous development mechanisms (van der Ploeg, 2006) and has steered the theoretical debate towards the topic of multifunctionality (Ocse, 1998; Bohman et al., 1999; Ocse 2001; Velázquez, 2001; Idda et al., 2002; Belletti et al., 2003; Casini, 2003; Cecchi, 2003; Van Huylenbroeck e Durand, 2003; Belletti, 2004; Henke, 2004; Brunori et al., 2005; Idda et al., 2005; Marangon, 2006a e 2006b; Casini, 2009).
The extensive literature in this field has dealt with such issues by providing different but comprehensive interpretations from time to time. This paper1 has taken into account the various standpoints giving, however, special focus on the views that appeared most in line with our research.

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1 Within this paper only a few main theoretical aspects shall be recalled for conciseness reasons. Reference shall be made to Nazzaro (2008) and the literature for further research on the subject.
objectives in order to give a correct interpretation of the new value creation models for farms using broadening/deepening multifunctional and tradability pathways for public goods.

The analysis carried out in this research starts from the concept of multifunctionality following a theoretical “normative” approach which attributes to the agricultural sector the capability to generate, jointly with its primary activity, collective benefits from non-commodity outputs (public goods)\(^3\). The latter show features of positive externalities which either do not have a market or it is little developed\(^4\). However, since public goods are capable of responding to the intangible needs of citizens, they can generate a social advantage (Belletti et al., 2003; Abler, 2003; Casini et al., 2004).

From the ample reference literature it is clear that multifunctionality allows farms to yield collective wellness, increase their own income and identify ways for their own competitive repositioning and thus facilitate the creation of value. In this framework, the internalization of market-unrelated social functions of multifunctional agriculture becomes a two-fold strategic objective. On one side, internalization acts as an incentive\(^5\) for the agricultural entrepreneur to maximize positive externalities. On the other, it augments the entire market basket of market-related secondary goods and promotes «la construction de l’image qui fonde le panier» (Pecqueur, 2001: 45) therefore generating new forms of “distinctive” value, improving social efficiency of farming systems and creating new business and value opportunities.

In this light, the renewed concept of multifunctionality proposed regards the latter as a strategic factor for defining and facilitating new pathways to value creation in agriculture. In this way, a new “paradigm of multifunctionality” is shaped in that it looks looking beyond the concept of (multifunctional) agriculture conceived as a simple generator of public goods and favours instead a repositioning by means of new opportunities in different production-consumption circuits. Consequently, farms have had to adapt to the above-mentioned social and economic changes leading the former to seek new opportunities in different production-consumption circuits. Consequently, farms have had to reposition themselves by means of boundary shift strategies (Banks, Long, van der Ploeg, 2002).

Thanks to this process, farms have the opportunity to cross traditional functional boundaries following three different pathways, i.e. by broadening their traditional activities towards the new functions of agriculture, by deepening their agricultural activities towards productions permitting them to derive portions of added value and by re-grounding and increasing their corporate income from external corporate activities (Banks, Long, van der Ploeg, 2002).

The broadening, deepening and re-grounding strategies represent the change to new agricultural models which, by diversifying the business areas of farms, lead to new pathways to value creation. The focus is therefore on the production of public goods and on an integrated exploitation of territorial specificities which, in turn, have a positive impact in terms of integrated rural development.

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2 Extensive debates on agriculture multifunctionality have been, simultaneously, accompanied by other relevant debates on “jointness” regarded as a link between secondary goods and services and primary goods. Many contributions on the features thereof have been analysed from various viewpoints stimulating said debates. (Shumway et al., 1984 e 1988; Baumol et al., 1988; Moschini, 1989; Leathers, 1991; Gatto e Merlo, 1999; Pilati e Bussato, 1999; Abler, 2001b; Bouvier, 2001; Hagedorn, 2004; Havlik et al., 2005 e 2006; OCSE, 2003; Peerlings e Polman, 2004; Velazquez, 2004; Cahill, 2006). For a summarised analysis see Nazzaro (2008).

3 The classification of public goods produced by multifunctional farms has been extensively researched by scholars (Abler, 2001a, 2001b; Meister, 2001; OCSE, 2001; Viaggi, 2003; Velázquez, 2004; Marangon and Trotta, 2006; Petriss, 2006).

4 Over the last decade various theoretical contributions have proposed new empirical solutions towards the “making of profit” from public goods in agriculture. For more information on the subject-matter, see AAVV. (1997); Gatto and Merlo (1999 and 2000); Merlo et al. (2000); Cahill (2001); Casini (2003); van Heijnenbroek and Durand (2003); OCSE (2003 and 2005).

5 This occurs through initiatives which look beyond conditionality and the measures as set out in Axis II of the Rural Development Programme. The weakness of specific incentives and the dominant tendency of maximizing market goods in the agricultural production process stop farms from optimizing positive externalities.
3. A novel model for multifunctional farms in cooperation: the “value portfolio”

In the light of the theoretical overview, farms have the opportunity to define different competitive strategies to apply either separately from each other or, as is more often the case, as a mix of three boundary shift options (deepening, broadening and re-grounding) in order to penetrate the market and meet the new needs and wants of society. In any case, the strategic choice of farms and their production chain is influenced by the context of reference thereof which includes both the territorial resources and the local community with its institutional, economic, organizational and social framework. This is due to the fact that the farms’ boundary shift can neither be de-contextualized nor disregard the external resources which have to be “internalized” within the selected strategic pathway so that such farms may position themselves in the market place in a competitive way.

Modern farms should therefore be considered as a complex productive reality which can generate a sort of “virtuous circle” thanks to which:

- the positive externalities\(^6\) generated qualify the internal resources of farms which become distinctive and more attractive because they can provide intangible goods that are in high demand from citizens or consumers;
- citizens/consumers/tourists who tend to show a so-called “short-chain” buying behaviour (social, educational, tourist services, corporate goods, etc.), have a direct contact with the enterprise. In doing so, they use the enterprise’s intangible assets (positive externalities) for which they are willing to pay a “premium price” for goods and services purchased (tradable) as they incorporate the value of intangible public goods generated by farms. In other words, a “plus value” is added to goods and services produced in multifunctional farms compared with similar goods and services from non-multifunctional farms\(^7\) (Marotta, 2008).

Each of the goods and services produced in the farm is the result of a development model based on long or short production chains and territories, which generates different value chains (see Figures 1).

Figure 1. The multifunctional and multi-value farm

According to this scheme, broadening or deepening become a tool whereby farms can derive supplementary value added portions by approaching and offering citizens/consumers/tourists their public goods (positive externalities) produced. To this end, farms create a form of “implicit tradability” for such

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\(^6\) In this study we have considered positive externalities as the ones produced within the farm context which can therefore be utilized in the farm (Mollard, 2002). For this reason, they represent farm’s attraction factors.

\(^7\) This multifunctional farm model recalls Pecquer’s market basket model for territorial goods and services. (2001). The French scholar claims that, despite a territorial perspective, the market basket of goods is created when a consumer, at the time of buying a territorial product, discovers the specificity of other available products/goods/services and decides that they are useful on the basis of the entire range of products offered (market basket). In this case, the added value of the “basket” rests on the fact that consumers choose and purchase a product in its specific geographical area of origin.
goods as well as an “internalization” way into the market place (Merlo et al., 1999; Ocse, 2001; Casini, 2003; Brunori et al., 2005; Idda et al., 2005; Marangon, 2006; Marotta, 2008).

The “virtuous circle” results essentially from a close functional link between the production of positive externalities and an increase in the corporate income generated by broadening/deepening activities. In this modern re-interpretation of the agricultural firm model, multifunctionality represents a true strategic factor of competitive advantage. As a matter of fact, multifunctionality expresses its real potential through broadening/deepening activities which offer an income increase and make activities or techniques for the production and promotion of public goods advantageous (Marotta, 2008).

In this perspective, a market-oriented production identifies in the quantity of public goods associated to it one of the main factors of competitive advantage (“distinctive qualities” of territories of origin, opportunities for satisfying new needs and wants). The vast range of broadened/deepened goods and services (local and quality produce, food-processing, farm houses, agro-energy, direct sale, food and wine tasting, social and artisan activities, wellness and tourist services, etc.) and internalized public goods can therefore satisfy both demands of food authenticity, healthiness and traditionality and those which result from the new relationship between wellness and agriculture thus contributing towards an integrated rural development model.

Nevertheless, the various value chains created are not always strategic alternatives, but, as they co-exist in a farm, they contribute to form a value portfolio\(^8\) (VP), (see Figures 1). In this way, the “new” model of multifunctional farms shows a “multi-value” pattern which results from the broadening/deepening activities, the protection and promotion of local resources and territory integration allowing multifunctional farms to create their value portfolio for new business opportunities.

Consequently, the desired optimal behaviour to create a “global value” and total “sustainability” for the entire short and long production chain and for the agricultural firm becomes the strategic element in developing a value portfolio in the new model of agricultural firms. An optimal value portfolio becomes therefore the objective which accounts for the strategic behaviour of a farm in terms of broadening/deepening activities which are connected with the opportunities offered by the multifunctional dimension of agriculture and the prospects of rural integration aimed at meeting the new citizens’ or consumers’ demands.

The new value portfolio paradigm essentially embeds the two theoretical schemes described above that have characterized the modern agricultural/rural development trend, i.e. that of multifunctionality (agricultural firms) and that of integrated rural development. All the three elements are embedded together and account for the key factors of the paradigmatic framework of the so-called “rural modernity” (Iacoponi, 1996).

We have started from these theoretical and methodological assumptions whereby the proposed value portfolio paradigm looks beyond the mere profit-making logic so that we have extended the analysis to the evaluation of the “multi-dimensional value” generated by the different chains which constitute the portfolio\(^9\). This appeared to be the most appropriate analysis path considering the different economic or political and productive or functional context of a multifunctional farm model from a more modern and re-interpreted perspective which runs through in this paper.

4. **A methodological contribution to interpreting value determinants: the “Value Portfolio and Multifunctional Governance Analysis” (VPMGA)**

The theoretical scheme of the suggested paradigm appears to be intricate due to the complexity of corporate decisions, the variety of farm’s development paths and the dynamics of the political or normative context.

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\(^8\) In line with the value system defined by Porter (1985) as an interdependent number of value chains, «a firm’s value chain is thus embedded in a system of sequentially interdependent value chains (the value system) and it is this that creates the value of the product in the marketplace» (Huemer, 2006: 136). The paradigm of value portfolio (“global value”), which is being proposed herein, results from all various value chains (quality production, food-processing and farm sale, tourist services, etc.) which through the premium price mechanism, internalize the intangible values connected with the farm’s positive and “territorial” externalities of reference in the market place.

\(^9\) Our interpretative paradigm, as opposed to the neo-institutional theory which used to place importance only on the economic value (economic function) (according to the principle of duality, total cost minimization = total profit maximization) regards an enterprise as a set of governance structures which permits optimization of the global value.
In order to explore and construct such dynamics in a better way, the approach of the governance value analysis (GVA) has permitted the identification of the new positions taken after the boundary shift, as proposed by Raynaud and Valceschini (2005, 2007). This is all the more true in the case of the strategies adopted for qualifying agro-food products.

Commitment-intensive governance mechanisms become necessary to handle transactions such as vertical integration, contractual relations, strategic partnerships, farms networking, etc.). However, the more a farm is oriented towards repositioning itself into high added value market places, and the more such markets are linked to product qualification paths, the more it becomes necessary to resort to governance structures.

In order to implement new production models, the strategic repositioning of farms and the creation of value through the opportunity gap require accurate analysis of available and future resources. As a matter of fact, a farm’s capacity to innovate itself through functional repositioning may be limited by its available competence types and social and economic structure. These limits may also depend on the degree of “familiarity” with the transformation and innovation paths undertaken (Afuah, 1998; Gow, Olivier, Gow, 2002). This means that a farm, which has been traditionally operating in a specific market, may find difficulties in repositioning itself in new market places as it lacks the necessary internal competences.

If the degree of familiarity with the new products/markets/processes/technologies is to be adequate, it needs a set of strategic actions to be activated in order to manage development paths requiring also specific resources and ad hoc governance structures (i.e. different ways to handle transactions such as vertical integration, contractual relations, strategic partnerships, farms networking, etc.). However, the more a farm is oriented towards repositioning itself into high added value market places, and the more such markets are linked to product qualification paths, the more it becomes necessary to resort to governance structures.

In order to explore and construct such dynamics in a better way, the approach of the governance value analysis (GVA) has permitted the identification of the new positions taken after the boundary shift as commitment-intensive so to become «“sticky” choices in the sense that they involve investing in durable and specialized assets that are not easily tradable in open markets» (Ghosh e John, 1999: 5). This is all the more true in the case of the strategies adopted for qualifying agro-food products. (Raynaud and Valceschini, 2005, 2007).

Boundary shift related strategies, therefore, generate implications on the governance systems of production chains and territories. The variety of development paths, the number of stakeholders involved coupled with the related geographical diffusion of value chains (local or global) make governance mechanisms complex. The risk is that such complexity and the related costs may even annul any expected profits (the case of the performance of certain Geographical Indication-labeled products is exemplary). This makes farms seek appropriate repositioning and governance in order to generate a positive net value. As Raynaud and Valceschini (2005, 2007) point out, it is exactly the alignment between these two variables (strategic positioning/governance structure) which augments the creation of value.

Although it has not been unanimously agreed in the literature, the GVA approach, when appropriately adapted, appears to be the most suitable to represent the processes of value creation and management with to be the multifunctional farms. This approach was developed from the strategic marketing

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10 We have moved from the assumption that the process of value creation within the new competitive scenarios shows a close link between strategy and structure (contrary to previous studies such as Chandler’s which considered the two variables as exogenous in the sense that a strategy determines a structure).

11 Besides Porter’s theoretical formulation (1985) of value chain (the value is created through various steps from the primary producer to the final consumer and each step or flow adds services or value), the vast literature on the creation of value presents several other contributions among which are the value network model (VNM), (Stabell e Fjeldstad, 1998) and, within the theories of strategic supply management, the value configuration analysis (Humer, 2006). Both the approaches start from Porter’s value chain and move further to explore the mechanisms of interactions and coordination of various interdependencies in the supply chain or in a supply network.

12 Some chains have an international dimension (the so-called global value chains).

13 In the literature, the primary governance systems have been classified in many ways, for example, by Stopper and Harrison (1991) and Schmitz (2003). Besides these classifications, Milgrom e Roberts’ (1992) taxonomy can also be employed for this purpose, although it appears more suitable for industrial companies. In our opinion, the preferred solution is a “new” taxonomy which is an extract of the previous ones and best suits the characteristics of the rural and agricultural situation.

14 The two authors have analysed the capacity of the “quality signal” (as quality differentiation strategies) to generate, capture and distribute value in the food industry by exploring the vertical chain in more depth. In this paper, we have investigated -as a fundamental issue- how the value among the various stakeholders and levels is distributed (for further contributions see Raynaud and Valceschini, 2005 and 2007).
The choice of governance form to manage the relationship allows the parties to define precisely the value of transaction thereby facilitating the activities of value creation. The lack of attention to the different governance models among firms has caused this approach focusing on strategic marketing decisions to be only partly applied. This characterizes the TCA offering a substantial contribution to the "contractual design" but stating that similar companies operating within the same industry, should have the same governance that yields the highest expected outcomes. From the analysis of the theories mentioned it appears that even though the latter seem to be a useful reference to validate the value portfolio paradigm, they cannot offer exhaustive answers to our question and, consequently, do not fully satisfy research demands. In reality, the value chain analysis and the governance value analysis have been defined and systematically implemented in a business environment related to extra-agricultural sectors. The specificity of activities (including value chains) carried out by multifunctional farms, which, as it is generally known, interact with external or territorial resources and are quite largely supported by public policies, do not make such related theories and methodological approaches very suitable to fully comprehend the mechanisms of value creation and governance in multifunctional farms. As a matter of fact, the analysis of value creation becomes very limited if variables such as territories and policies, which are extremely significant in forming value chains in the agricultural and agro-food sectors, are not taken into account. This aspect is even more meaningful in relation to the optimal value portfolio which looks beyond the concept of a multifunctional farm as a simple producer of public goods (agricultural model promoted to justify the support of the CAP) in favour of a new vision. Within the boundary shift strategies and by integrating the distinctive qualities of territories, a multifunctional farm builds its competitive advantage and establishes a monetization form for the positive externalities generated including a trading promotion path for its produce. In this way, a virtuous mechanism is triggered and the farm can create new value chains. However, this new vision requires policies to become a determinant variable acting both as a tool to re-address business strategies and to justify the support (conditionality), promotion and exploitation of multifunctionality (Axis III of the Rural Development Programme, “RDP”) so that firms can have the opportunity to build a value portfolio.

In the light of the facts described earlier and in order to answer our initial question, we propose a new methodological approach which looks at analysing how value strategies embedding both the VCA and the GVA are created and governed. At the same time, this approach attempts to look beyond its “sectoral” limits (even though they are justified by the business area and strategic marketing studies from where such theories stem) to represent a new development which best responds to the characteristics of multifunctional farms. Thanks to this new approach, which we have called Value Portfolio and Multifunctional Governance Analysis (VPMGA), we have established specific determinant variables - both internal and external to the firm - which facilitate or induce boundary shift processes, regulate transaction governance mechanisms and allow optimization of the created global value (OVP). In other words, through the VPMGA it is possible to analyse the multifunctional

15 In their research, Day and Klein (1987) first tried to synthesize the two theoretical approaches (the RBV and the TCA).
16 Two of these, namely “transaction attributes” and “governance forms”, come from the TCA model.
17 The GVA and the TCA both imply that transactions are characterized by three critical factors: specific investments (through which value is created although expensive safeguard clauses during agreement execution are required), uncertainty and opportunistic behaviour. At different level for such factors, the analysis of transaction costs recognizes three different forms of governance (market, hierarchical, relational) which allow the respected portion of created value to be assigned in a non-discriminatory way.
18 The choice of governance form to manage the relationship allows the parties to define precisely the value of transaction thereby facilitating the activities of value creation.
19 This characterizes the TCA offering a substantial contribution to the “contractual design” but stating that similar companies operating within the same industry, should have the same types of contracts. The lack of attention to the different governance models among firms has caused this approach focusing on strategic marketing decisions to be only partly applied.
20 Industries and services.
21 In this way, a new awareness for the “value” of territory would be raised within local policy makers and stakeholders.
governance and the OVP building variables, reconstruct the interactions and interdependences with the boundary shift strategies as well as the impact on the optimization of value performances. In order to evaluate how functional the OVP is, it was necessary - through the resource-based view (RBV) - to consider not only agricultural firms’ core competences but also those related to the territory and the policy (tangibles) from all which development paths (based on typical production chains) result and we also decided to emphasize social competences (intangibles) from which social capital is formed (Lee et al., 2005). Thanks to the resource-based view and the focus on core competences we could empirically test the governance models and demonstrate that, despite that the perspective of transaction cost economics claims, the activation of synergic competences between firms (networking) and the territory allows the creation of greater value than what hierarchical solutions may offer. (Ghosh and John, 1999; Raynaud and Valceschini, 2007). This is particularly true and evident with the good trading performance of Geographical Indication (GI) labelled products, especially when there is a strong territorial impact. In this case, by applying the neo-institutional theory which analyses governance strategies through known bipolar models (market-hierarchy) and hybrid forms (Williamson, 1996; Menard, 2004), it should be distinguished between “internal governance”22 and “rural governance”23 (Paus, 2009) in order to identify functional models for VP optimization analysis. With these premises and in order to optimize the VP creation processes, the proposed paradigm conceives the firms’ choices with their re-organization scheme and value creation pathways as related to the interaction of a series of variables which do not only affect the firms’ internal but also its territorial resources, as well as the market and their access to policies. The determinant variables of this theoretical scheme contribute to form an optimal value portfolio and fall in the following four families: firm’s internal resources, territory, market and policies (see Figures 2, Table 1) even though they play a hierarchically differentiated role.

Figure 2. The Optimal Value Portfolio (OVP)

Source. Our elaboration

The most hierarchically significant variables are certainly the ones belonging to the family known as firm’s internal resources. These resources interact with consumer’s and citizen’s demands (market), the territory resources and the opportunities offered by policies. In this way, they create the conditions for business decisions to be taken on how the optimal value portfolio should be composed and sized. The methodological approach of the Value Portfolio and Multifunctional Governance Analysis has therefore allowed us to consider firms’ strategic decision-making processes (multifunctional governance) and at the same time analyse the impact of the four determinant variables on VP creation. We could also reconstruct the functional links between the single determinants (or any combination thereof) and the changes made (boundary shift) as well as their impact on how the value portfolio has been created and optimized.

22 This is referred to organizational methods of a stakeholder’s network operating within a supply chain.
23 This is referred to a territorial organizational partnership model involving stakeholders, institutions and various production chains (Goodwin, 1998).
In this way, the objective of the analysis has shifted from assessing value portfolio products or services to evaluating the determinants for an optimal value portfolio. Consequently, the VPMGA regards the firm as a set of governance structures whereby the global value created, i.e. the value of the portfolio of firm’s functions or activities, can be represented with the following mathematical formula:

\[ \text{OVP} = f(\text{ri}[m; t; p]) \] \hspace{1cm} \text{[1]}

with \( \text{ri} = \begin{pmatrix} r_1 \\ r_2 \\ \vdots \\ r_i \\ \vdots \\ r_k \end{pmatrix} \), \( m = \begin{pmatrix} m_1 \\ m_2 \\ \vdots \\ m_k \end{pmatrix} \), \( t = \begin{pmatrix} t_1 \\ t_2 \\ \vdots \\ t_k \end{pmatrix} \), and \( p = \begin{pmatrix} p_1 \\ p_2 \\ \vdots \\ p_k \end{pmatrix} \).

Where the OVP is a function of a firm’s internal resources (ri), given:
- tangible and intangible needs and wants of consumer citizens (m);
- a defined quantity and quality of the firm’s reference territorial resources (t);
- support policies for boundary shift activities (p).

With reference to fig. 1, [1] can be rewritten in the following way:

\[ \text{OVP} = \sum \text{va} = \sum f(\text{ri}[m; t; p]) \] \hspace{1cm} \text{[2]}

with \( \text{va} = \begin{pmatrix} va_1 \\ va_2 \\ \vdots \\ va_k \end{pmatrix} \) and \( \text{ri}[m; t; p] \), as in [1].

Table 1. The determinants of OVP

<table>
<thead>
<tr>
<th>Internal Resources (IR)</th>
<th>Market (M)</th>
<th>Territory (T)</th>
<th>Policies (P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human capital (entrepreneurial family, pre-emptive bonus, available skills)</td>
<td>Healthy and safe food</td>
<td>Natural resources (protected areas, landscape assets)</td>
<td>Environment Positive (EP) Creation (cooperatives, European Area of the ROP)</td>
</tr>
<tr>
<td>Physical resources (i.e., hotel machinery, etc.)</td>
<td>Demand for variety (taste diversity)</td>
<td>Historical-cultural resources (historical and cultural places of interest)</td>
<td>Use of IP &amp; green economy (Articles II and IV of the ROP, other laws)</td>
</tr>
<tr>
<td>Financial resources (liquidity and access to finance)</td>
<td>Demand for social services (ageing therapy, disability healthcare, etc.)</td>
<td>Quality indicators (territorial labels)</td>
<td>Promotions of multifunctionality-related services (equality law)</td>
</tr>
<tr>
<td>Intangible assets associated with multifunctionality (environment, landscape and cultural resources, etc.)</td>
<td>Social capital (co-operations, associations, voluntary and civic networks)</td>
<td></td>
<td></td>
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<tr>
<td>Relational networks (cooperation)</td>
<td>Fixed social capital (access to the territory, internal mobility, services for companies and individuals)</td>
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<td>Local economic diversification (agro-ecological sector)</td>
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<td>Institutional options (equality of local government)</td>
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with \(i\), (from 1 to \(k\)) showing the potential functions/activities (value chains) that can be implemented within agricultural firms. The performance (\(va\)) of each \(n\)-th value chain, depends on the quantity and quality of a firm’s internal resources (competences, human, financial, organizational and social resources) given citizen’s or consumer’s new demands (\(m_i\)), territory-specific resources (\(t_i\)) related to the selected value chain (distinctive qualities, specific social capital, etc.) and the ad hoc support policies (\(p_i\)).

To validate this analytical approach we have carried out an empirical test on carefully selected agro-food chains as described in the following pages.

7. Final remarks

The theoretical model and the methodological approach presented in this paper have a significant potential to interpret the current transformation processes of multifunctional farms, which are to face the new and multi-faceted demands of developed societies. Through these tools it is possible to gather useful information in order to define a coherent framework for policy demand, which may act as a valid contribution to the debate on the role of public intervention in the field and on its reform.

In the light of the results obtained the VPMGA has therefore stressed the need to implement policies aimed at sustaining company internal resources and improve context conditions (territory).

As to the internal resources, there are tools which should be identified and that: a) qualify the human capital for an effective, efficient management of complex governance structures linked to different value chains which can be implemented in the business; b) enhance the social capital, to facilitate chain and territorial networking which, in turn, are targeted towards creating efficient value chains; c) improve a company’s financial sustainability also by means of innovative and more accessible forms of credit allowing the ventures to be efficiently financially managed and connected with a multi-faceted activity portfolio.

As to policies aimed at improving general conditions of rural territorial development, it appears necessary to: d) strengthen local identity and territorial distinctive qualities on which farms can build their competitive advantage through expedient boundary shift strategies; e) (re-) establish the link between production chain and territory; f) design effective measures for the building of “capacities” in order to enable local policy governments, both public and private, to support development processes. This may be achieved by means of synergic actions and strategic alliances aimed at closing the fixed social capital deficit affecting rural areas, for example of Southern Italy. In fact, this deficit impedes networking among enterprises and between institutions, society and enterprises which could tackle the new competitive challenges.

Reference


