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The Intersection of Social and Economic Value Creation in Social Entrepreneurship: A Comparative Case Study of Food Hubs

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Abstract

Food hubs have the potential to be a key driver of success among local and regional food supply chains. Although the number of food hubs in the United States has grown over the last decade, a dominant design for these types of organizations is still emerging. This study systematically analyzes four food hubs with different organizational structures from the perspective of the entrepreneurship processes by which they were formed. We find that food hubs are social enterprises aimed at creating social and economic value simultaneously, but the social value proposition differs by food hub type.

Keywords: comparative case study analysis, food hubs, local and regional food systems, social entrepreneurship

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Introduction

Over the last 2 decades, increasing demand for locally produced food among U.S. consumers has led to a reemphasis on local and regional food systems and the emergence of organizational innovations such as food hubs to coordinate these food systems. Food hubs have the potential to be a key driver of the success of local and regional food supply chains. Although the number of food hubs in the United States has grown over the last decade, a dominant design for these types of organizations is still emerging. If food hubs are to be sustainable, it is essential to further investigate the characteristics of these organizations and better understand the purpose of food hubs in the local and regional food systems. This, in turn, has underlying implications for strategy development for practitioners and policy makers. We propose that to understand food hub motivations and intentions, it is important to examine the entrepreneurial processes by which they are formed (i.e., “how” entrepreneurship is organized in food hubs). In particular, we explore the key similarities and differences among various types of food hubs from the perspective of entrepreneurship processes. We adapt the social entrepreneurship framework proposed by Austin, Stevenson, and Wei-Skillern (2006) to systematically analyze and compare four case study food hubs.

Literature Review

Food hubs are typically defined as organizations that actively manage the flow of food products from primarily local and regional producers to retailers, institutions (e.g., schools and hospitals), and foodservice companies (Barham et al., 2012). Although the number of food hubs has been growing, the purpose of food hubs is still debated in academic literature and among practitioners. The three major streams of research explaining the emergence and purpose of food hubs include

- (i) food hubs as organizations that increase the market efficiency of the local and regional food systems (Day-Farnsworth and Morales, 2011; Diamond and Barham, 2012; Matson, Sullins, and Cook, 2013, Diamond et al., 2014),
- (ii) food hubs as organizations aimed to create sustainable production and consumption culture of local foods (i.e., sustainability- and community-oriented organizations) (Blay-Palmer et al., 2013) or as market-driven organizations aimed to support values-based agri-food supply chains (i.e., bridging the gap between the small- and medium-sized producers and wholesale buyers) (Berti and Mulligan, 2016),
- (iii) food hubs as organizations that combine purchasing and distribution functions with social mission goals (e.g., helping to grow regional food systems, increasing healthy food access, and having positive impacts on local economies in which food hubs operate) (Fischer et al., 2015).

Perhaps the divergence in these approaches regarding the purpose of food hubs in the food system, coupled with the heterogeneous business structures that also characterize these organizations, is one of the main reasons for the lack of clarity about whether food hubs pursue a social mission, monetary incentives, or both simultaneously. We argue that examining food hubs from a social entrepreneurship theoretical framework might provide further insights into the role of food hubs in the food system.

Social Entrepreneurship Framework

Social entrepreneurship is defined as “a process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs” (Mair and Marti, 2006, p. 37). Austin, Stevenson, and Wei-Skillern (2006) propose an analytical framework, the Social Entrepreneurship Framework (SEF), to analyze social entrepreneurship process (Figure 1). The framework includes five key components: opportunity, people, capital resources, social-value proposition (SVP), and contextual forces. The principle premise of this framework is that the opportunity, people, and capital resource components of the framework “need to be related to and integrated by the core social-value proposition (SVP)” (p.16). As Austin, Stevenson, and Wei-Skillern argue, social enterprises are ventures that have an SVP at the core of their mission and strategy.

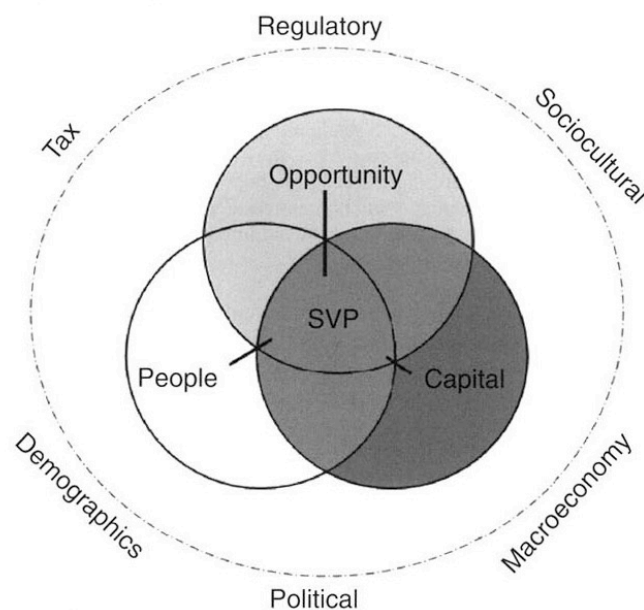


Figure 1. Social Entrepreneurship Framework

Notes: The social value proposition (SVP) refers to the distinctive mission of a social enterprise and the multifaceted nature of social value creation. People and capital refer to human and capital resources, respectively. The opportunity is defined as an activity that promises a better or desired state in the future. The context refers to factors (e.g., demographics, lifestyles, political, sociocultural factors, regulatory structure, political environment, etc.) that an entrepreneur has no control over (Austin, Stevenson, and Wei-Skillern, 2006).

Source: Austin, Stevenson, and Wei-Skillern (2006).

Methods

This study employs a multiple-case study research design (Yin, 2003) to conduct a comparative case study analysis of four Michigan food hubs. We employ a purposive sampling strategy to select four food hubs (A, B, C, D) with different organizational structures. The food hubs include a nonprofit organization (A), a for-profit organization (B), an organization that operates as one of the separate projects of a larger NGO (C), and an organization that is a partnership between two different entities (D). Semi-standardized interviews served as the main instrument for data collection. The interviews were conducted with food hub managers or founders in Summer and

Fall 2015 and verbatim transcribed. Supplementary secondary data were also collected through publicly available food hub websites. These data were used to construct case studies employing open and axial coding procedures (Creswell, 1998; Patton, 2002).

We also performed a comparative analysis of food hubs to identify key similarities and differences with regard to each dimension of the social entrepreneurship framework (see Table 1 for the operationalization of dimensions). We are specifically interested in the process of how the case study food hubs organize these processes rather than the numerical value of their financial resources per se.

Table 1. Operationalization of the Social Entrepreneurship Framework

| Dimension | Operationalization |
|--------------------------|--|
| Opportunity and context | Foundation history and evolution path |
| Capital | Key funding sources critical for food hub establishment, survival and growth |
| People | Key individuals involved in the establishment of the food hubs |
| Social Value Proposition | Long-term mission and short-term goals |

Results

Opportunity and Context

In comparing the nature of opportunities captured by the food hubs along with the contextual factors (Table 2), we found that food hubs first identified particular needs or issues faced by smaller farmers, local community members, and/or local and regional food systems (except for the for-profit food hub, which was first established as a small commercial operation and later restructured its organization model to focus on strengthening local and regional food systems through food safety and distribution). This was followed by identifying interested stakeholders or partners who were willing to contribute and network formation. This largely determined the resource pool available for starting a food hub. Finally, the food hubs were strategic about choosing a legal business structure for their initiatives, which were mainly for financial reasons rather than social mission. The intent was to start an entity that would have the capacity to generate enough revenue in the short-run to fund the operations.

We also found that at some point food hubs needed a brick-and-mortar building as a place to aggregate their products. Some of them acquired and renovated abandoned buildings by utilizing local community support.

Capital

In many ways, the acquisition of financial resources, survival, and growth were similar among the food hubs (Table 3). First, although food hubs generate revenues by charging fees to producer-suppliers for utilizing the food hub as a marketing channel, funds from philanthropic organizations and government programs have shown to be the most critical in the establishment and survival of these food hubs (except for food hub B). The funds were utilized to establish the

Table 2. Nature of Opportunities Captured by Case Study Food Hubs

| Food Hub Name | First Established as | Nature of Opportunities Captured | Current Legal Business Status |
|----------------------|------------------------------------|--|--------------------------------------|
| A | Community garden organization | Local community building through gardening Youth involvement in farming/food production Improving food access | Nonprofit |
| B | Small commercial operation | Preserving family farms Maintaining farm identity throughout the supply chain Allowing growers to have part in decision making Food safety | For-profit |
| C | A separate project of a larger NGO | Local farmers and food processors' identified need that there was a gap between the demand for local food in the area and the way to get it to those who needed it | A separate project of a larger NGO |
| D | Partnership between two entities | Local farmers' challenges in trying to market their products to larger buyers such as restaurants Food safety | Partnership between two entities |

Table 3. Major Funding Sources of Case Study Food Hubs

| Food Hub Name | Funding Source |
|----------------------|--|
| A | Foundation Nonprofit organizations Local community foundation Federal government programs |
| B | Private investments State program |
| C | Nonprofit organization |
| D | Federal government programs State department Privately held company University |

food hub, build infrastructure for food hub initial operations, and pay food hub staff. Second, the food hubs have made strategic choices in terms of identifying and establishing diversified complementary funding sources along with a diversified customer base. Third, food hubs were strategic in using their funds in terms of choosing business structures.

Despite these similarities, we also found some key differences. The major fund providers for food hubs A, C, and D belong to two main categories: (i) organizations supporting local community development initiatives, and (ii) organizations supporting local/fair/healthy food initiatives. Food hub B was established and grown based on private investments (Table 3).

People

Some key similarities were identified in the key human resources involved in the establishment of the food hubs. First, the food hubs were founded by individuals who had already been working with local farmers or their local or regional community in general. Second, food hub investors and funders had strong commitments to local and regional food and community development initiatives. Third, the engagement of diverse food hub stakeholders was critical for food hub capacity building. Despite these similarities, food hubs differ in the number of people involved in their establishment.

The Social Value Proposition (SVP)

Comparing the long-term missions and short-term goals of all four food hubs, we identified two key similarities. First, the long-term missions of the case study food hubs are rooted in their social mission goals (Table 4). Short-term goals, on the other hand, revolve around building an

Table 4. Key Components of Long-Term Missions of Case Study Food Hubs

| Food Hub | |
|-----------------|--|
| Name | Long-Term Mission |
| A | <ul style="list-style-type: none"> • Support the existing farmers it sources the products from. • Build new farmers. |
| B | <ul style="list-style-type: none"> • Build a resilient and socially just food system. |
| C | <ul style="list-style-type: none"> • Help small- and medium-sized food growers and producers to rely on farming for their livelihood. • Help low-income families in local community to have access to healthy food. • Help meet the demand of institutions participating in “20% by 2020” initiative. |
| D | <ul style="list-style-type: none"> • Support farmers who want to scale up to serve markets beyond merely the farmers’ market. • Help start school gardens. • Provide services in the area of food safety. • Partner with organizations to help with food access and health issues. |

Table 5. Key Components of Short-Term Goals of Case Study Food Hubs

| Food Hub | |
|-----------------|--|
| Name | Short-Term Goals |
| A | <ul style="list-style-type: none"> • Generate more revenues to be able to pay salaries of food hub's key personnel. • Self-fund equipment or costs related to the food hub. • Be less dependent on philanthropic funding. |
| B | <ul style="list-style-type: none"> • Become an expert in area of food safety. • Become a company where individuals and organizations would be able and seek to contact for addressing various questions or issues. |
| C | <ul style="list-style-type: none"> • Generate more sales. • Help growers to build more of their capacity. • Have more occupants for the storage facility. |
| D | <ul style="list-style-type: none"> • Increase awareness within the region about the activities of the food hub and how the community members (e.g., farmers, consumers, etc.) can benefit from it. |

economically viable enterprise through economic value creation (i.e., revenue) (Table 5). These results reinforce the theory of social entrepreneurship about the balance of social and economic value creation in a social enterprise.

The nature and scope of social value creation, however, differs by food hub type. In particular, long-term missions fall into one or more of the following categories: (i) helping small- and medium-sized producers—both existing and new—rely on farming for their livelihoods; (ii) improving access to healthy food in local communities; and/or (iii) building locally and regionally integrated resilient food systems by focusing on food safety.

These results reinforce the social entrepreneurship theory in terms of the multifaceted nature of SVP to catalyze social change or meet social needs.

Conclusion

The findings of our study show that food hubs are social enterprises aimed to simultaneously create social and economic value. Social value is created by addressing the needs of small- and medium-sized farmers to access larger markets, establishing scale-appropriate infrastructure and food safety procedures, improving healthy food access in local communities, preserving family farms, maintaining farm identity, and/or strengthening local and regional systems as a whole. Social mission is at the core of their strategy and decision making. Meanwhile, economic value is created in the form of revenues. Food hubs pursue revenue-creation strategies to build economically viable enterprises. Diversifying funding sources and strategies that align with food hubs' SVP are critical for food hub survival and growth.

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