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Can SMEs Build Global Brands with Place-Of-Origin Information?

The Role of Social Networks

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1. Introduction

Agri-food small- and medium-sized enterprises (SMEs) can enter global food chains by pursuing niche marketing strategies, where a narrow segment of customers perceives high benefits of food products that compensate their high prices and do not require large volumes of supply (Humphrey, 2005). To serve a niche of global customers, building a brand is challenging but crucial. Brands are crucial as they provide signals of the overall quality of products, as well as create an image that differentiates them from competitors (Keller, 1993). Building a brand is particularly important for firms that aspire to have a product image associated to credence attributes (Darby and Karni, 1973; Humphrey, 2005). Credence attributes are quality features that cannot be verified either before or after consumption of a product (Darby and Karni, 1973). The place of origin of a product, which is the most extensively studied credence attribute in the agricultural economics and marketing literature, is often used as a cue of the excellent flavor, the typicality and the sustainability of agri-food products. Credence attributes are increasingly valued in global markets and, given their own nature, the role of *who* signals them is crucial to determine their value.

However, to develop their own global brand and enter the international market successfully, SMEs face numerous challenges because of their tight resource constraints (e.g., Zacharakis, 1997) and the uncertainty associated with a new business environment (e.g., Jarrillo, 1986; Zacharakis, 1987; Gabrielsson, 2005). A viable option to overcome this challenge may be to establish a strategic alliance, under which SMEs can obtain the necessary resources to compete (e.g., Barney, 1991; Erramilli and Rao, 1993) and build a global brand (e.g. Chang et al., 2005; McDougall et al., 1994) while reducing its market entry risks. However, strategic alliances can limit a SME's control (Anderson and Gatignon, 1986) over its market and its organization, and ultimately reduce their profit margins and make it lose its individual identity.

In this study, we instead explore how an agri-food SME can individually develop a global brand with into a new foreign market by making effective use of its social networks. As already studied in the literature, SMEs can benefit from social networks to identify its potential buyers (Coviello and Munro, 1997; Ellis, 2000) and so to create the market opportunities (e.g., Sharma and Johanson, 1987). We found that social networks can have a pivotal role also as signals of specific quality attributes associated to the SME's brand. In particular, social network can involve actors that have a "high-status" vis-à-vis potential buyers and endorse the brand effectively (Podolny, 1993). Therefore, by using its social ties with "high-status" actors as signals of credence attributes, SMEs can create an image to their global brand and connect with foreign buyers by using limited resources for marketing and advertising. At the same time, they can create niches of a competitive advantage in the market, as social ties can be difficult to replicate for new entrants.

As this is currently an under-explored field of research, we decided to undertake a qualitative study based on a “grounded theory” methodology (e.g., Glaser and Strauss, 1967), where results are exploratory in nature (Yin, 1984). Italian olive oil SMEs provide the instrumental cases for this study. We choose single-estate extra-virgin olive oil as our product of interest as we assume that brands have a stronger impact for processed foods whose quality is difficult to assess by the average consumer. Between 2006 and 2009, we conducted open and semi-structured interviews with 64 Italian entrepreneurs from Lazio, Tuscany and Liguria regions, 14 importers of olive oil from Italy to USA and 4 deli stores based in Michigan. We also conducted extensive secondary data research from web resources.

This paper is organized as follows. In section 2, we briefly review the literature on social networks, branding and credence attributes. We introduce our research method based on a “grounded theory” approach in section 3. In section 4, we briefly describe the case providing evidence to our emergent theory, while in section 5 we propose our conceptual framework. We draw our conclusions in section 6.

2. Literature Review

Social networks can be defined as “sets of nodes (e.g. people, organizations) linked by a set of social relationships (e.g., friendship, transfer of funds, overlapping membership) of a specified type” (Laumann et al., 1978). Various strands of the economics literature provide evidence that social networks drive the economic behavior of agents (Burt, 1990; Conley and Udry, 2001) and the interaction among multiple agents (Granovetter, 1985, Gulati, 1998). Social networks have an impact on the formation of transactions between

sellers and buyers (Kranton and Minehart, 2001) and on the creation of institutions facilitating these transactions (Greif, 1993). Within this strand of the literature, a few researchers have focused on the role of social networks for the entry of small and medium-sized enterprises (SMEs) into the international market (Coviello and Munro, 1997; Ellis, 2000). In this context, social networks are vital to move a firm from having the capability of entering a new market to having the opportunity of entering it (Sharma and Johanson, 1987).

In this paper, we extend the theory of social networks and SMEs' international market entry to explore how an agri-food SME can use social networks to signal credence attributes and so to build a global brand with a strong image. Building a global brand is commonly defined as "the process of developing a firm's brand equity that appeals to overseas target consumers' positive attitudes about the brand" (Dictionary of Marketing Terms, 1995). Credence attributes are features of a product that consumers can verify neither before purchasing nor after consumption (Darby and Karni, 1973). Place of origin, "typical", "sustainable", organic, locally-grown, animal welfare, environment-friendly are examples of credence attributes that are receiving growing attention by world consumers, producers, as well as researchers (e.g., Thompson, 1998; Nimon and Beghin, 1999; Van der Lans et al., 2001; Alfnes and Rickertsen, 2003; Darby et al., 2008).

Credence attributes can be crucial to create a strong brand image (e.g., Aaker, 1991), which may drive the development of a strong brand and ultimately create a competitive advantage for the firm in the marketplace (Keller, 1998). The five major dimensions of brand equity identified by Aaker (1991) and largely accepted in marketing literature are brand image, brand loyalty, brand awareness, perceived quality and other proprietary

brand assets. Credence attributes, such as place-of-origin, can contribute to create a strong brand image when they are consistently associated to other brand attributes, such as product packaging, flavor and firm's identity (Aaker, 1991; Keller, 1993). Moreover, in order to build a brand with a strong credence attribute image, it is important to receive the endorsement of actors in the marketplace - such as deli stores, chefs and cultural organizations - that are related to the credence attribute (Keller, 1993).

Therefore, to create a global brand with credence attribute such as place-of-origin, it is crucial to create social ties with "high-status" actors in the marketplace being able to send a credible signal that a certain brand really have the credence attribute. According to Podolny (1993), market status is "a signal of the underlying quality of a firm's products". If a seller is uncertain of the actual quality of a product in the market, as in the case of credence attributes, then the regard that other market participants have for a given producer is a fairly strong indicator of the quality of that producer's output. This conception of status is compatible with the formal economic understanding of signals, firstly elaborated by Spence (1974).

By observing the pattern emerging from the case of single-estate olive oil producers in Italy, this research attempts to extend the presented literature to the context of a SME aiming at creating a brand with place-of-origin attributes to enter a global food chain successfully.

3. Methods

In order to analyze and to establish the conditions enhancing the strategic role of social networks to develop a SME's global brand, we decided to undertake a "grounded theory" approach. "Grounded theory" is a general methodology that emphasizes an inductive research process focused toward theory development as opposed to deductive theory testing (Glaser and Strauss, 1967; Strauss and Corbin, 1994; Dey, 1999).

The "grounded theory" is recognized as the appropriate method to analyze and evaluate complex dynamic issues at the organization and inter-organization level where limited data points or cases are available (Stake, 1995; Westgren and Zering, 1998). "Grounded theory" provides research an inductive process of thinking about and conceptualizing data into a theory which evolves through a continuous interplay between analysis and data collection during actual research (Strauss and Corbin, 1994). Initially data collection is liable to be somewhat unfocused and often unstructured but, as the inquiry proceeds, the data collection and analysis becomes more selective and focused on particular topics (Dey, 1999). During the process, the researcher must think conceptually and constantly analyze the relationships between their data (Dey, 1999). There is an insistence among grounded theorists that it is interpretive work and that the interpretations must include the perspectives of those studied (Strauss and Corbin, 1994). Such interpretations are sought for understanding the actions of those being studied, however, those who use grounded theory procedures accept responsibility for interpreting what is observed, heard, or read, and not merely voicing the viewpoint of those studied (Strauss and Corbin, 1994).

We choose single-estate extra-virgin olive oil as our product of interest as we assume that brands have a stronger impact for processed foods whose quality is difficult to assess by the average consumer. Between 2006 and 2009, we conducted open and semi-structured interviews with 64 Italian entrepreneurs from Lazio, Tuscany and Liguria regions, 14 importers of olive oil from Italy to USA and 4 *delicatessen* stores based in Michigan. The initial interviews were conducted in an unstructured manner to gain a broad understanding of the case without imposing any preconceptions, but gained further focus as successive interviews were undertaken and an understanding of the alliance and of the firms was gained. We also conducted extensive secondary data research from web resources.

We measured brand equity - and in particular its dimensions of brand awareness, perceived brand quality and brand image - with a “direct approach” (Aaker, 1991; Keller, 1993), which is based on observing the outcome of brand equity rather than its sources. It is distinguished from the “indirect approach”, which instead assesses the major dimensions of brand equity with questions to customers (Keller, 1993). Therefore, consistently with the definition of brand equity (Aaker, 1991; Keller, 1993), we attempted to analyze the impact of the brand knowledge on the customers’ response to different elements of the alliance’s marketing activities. In other words, the broad question that we have continuously posed ourselves to assess brand equity is: to what extent did the brand owner’s marketing activity have a larger impact with the brand name rather than with a completely unknown brand name? It would have been ideal to mix a direct and indirect approach of brand equity measurement (Keller, 1993), but we had

large access only to alliance members' data and very limited access to their customers' data.

4. The Case of Italian Single-Estate Olive Oil Producers

Olive oil producers from many regions of Italy can benefit from the positive image surrounding Italian food brands when exposed to international markets. However, small single-estate producers generally do not have the resources to compete in the US mainstream retail sector with larger firms that have already established global brands with a strong Italian image. Recently, a few US food retailers are pursuing a differentiation strategy with the purpose of offering excellent food products that have quality attributes much higher than the minimum standards required by the US Department of Agriculture (USDA) regulation.

A few small single-estate producers from Lazio, Liguria and Tuscany were able to build a network of social ties with "high-status" actors having a good reputation vis-à-vis these US retailers, such as chefs, olive oil tasters, cultural associations, food experts and journalists. By connecting with these intermediaries, they were able to create a set of export channels across the US that sell up to 90% of their production and to develop their brand equity in the US among the niche of consumers that is willing to pay a high price premium for Italian olive oil. We have evidence that producers with only little or no social ties signaling the "typicality" of their Italian olive oil have not been able to create export channels with their own brand. Moreover, a similar strategy could not be followed by large firms with established brand of olive oil. "High-status" actors are not willing to signal the "typicality" attribute of brands owned by large firms selling in the mainstream

US retail sector, as this would hurt their image and ultimately their acquired status. Therefore, we observed a clear pattern: olive oil producers create linkages and start transacting with their buyers after that an information flow about their olive oil brands occurred between the parties. This information flow is mediated by a set on actors that have the reputation vis-à-vis buyers of being able to recognize the product quality (see Figure 1).

5. Conceptual Framework

We develop a framework that builds upon the concept of social networks (Granovetter, 1985), market status as a signal of quality (Spence, 1974; Podolny, 1993) and brand equity (Aaker, 1991 and Keller, 1993) to explain a problem related to global agri-food value chains.

Based upon exploratory evidence of the case of Italian single-estate olive oil producers, we state the following four testable propositions:

P1. A SME's embeddedness is associated with its brand awareness.

This is evident from many interviewees' declarations, including the following by a distributor based in Michigan: *“When I started to look for olive oils from new Italian regions (...) I asked to some of my Italian friends: which producers do you know over there? And they usually reply: I personally know two of them that already export (...) and I have read (...) in a local newspaper (...) about other three producers that have recently*

switched to organic. Therefore, I started my personal search for the best oil from these five.”

P2. A SME’s ties with high-status actors are associated with its brand perceived quality.

This is evident from many interviewees’ declarations, including the following by a single-estate olive oil producer in Tuscany: *“My family stems from (...) local aristocracy and for generations we have been hiring chefs from France, Germany and UK. Through them we were able to make the quality of our oil widely recognized abroad”*.

P3. A SME’s ties with high-status actors are associated with its brand image.

This is evident from many interviewees’ declarations, including the following by a distributor based in Michigan: *“Each olive oil bottle that we sell also needs to have a particular story that really involves our customer. We do our best to tell this story, but the truth is that producers have to communicate it themselves (...) or through someone telling their product’s story for them.”*

P4. A SME’s embeddedness is associated with the creation of ties with high-status actors.

This is evident from many interviewees’ declarations, including the following by a single-estate olive oil producer from Lazio: *“We start getting smart about this. We invite to our restaurant journalists and food experts (...) that have a name in France to our restaurant, (...) also with their wives, in a friendly atmosphere. We make them feel that it is not their work time. We realize that, in the long-run, this will give a return. (...) Also,*

we have recently sponsored merit awards in our local high school for chefs. We realize that these kids are tomorrow's food experts."

Together, these propositions form the proposed model described in Figure 2.

6. Conclusions

Building a brand with a strong place-of-origin image, which enhances the typicality and the sustainability of the agricultural product, is an opportunity for many SMEs to enter successfully into the international market, as a niche segment of world consumers increasingly demands higher quality, variety and sustainability (Humphrey, 2005).

From the case of small Italian single-estate olive oil producers, we find that a SME can use social networks (Granovetter, 1985) that tie the firm with "high-status" actors (Podolny, 1993) can effectively develop international brand equity (Keller, 1993) and ultimately enter a global value chain successfully. This could be a viable entry option for SMEs that does not require the use of large resources for advertising and marketing but that can create a competitive advantage to serve a niche of high-end consumers, as the use of social ties can be difficult to imitate.

Given the nature of a "grounded theory" approach as research method (Yin, 1984), we recognize that this study is exploratory. Based upon the exploratory evidence presented in this paper, future research should quantitatively test the propositions stated in our suggested model.

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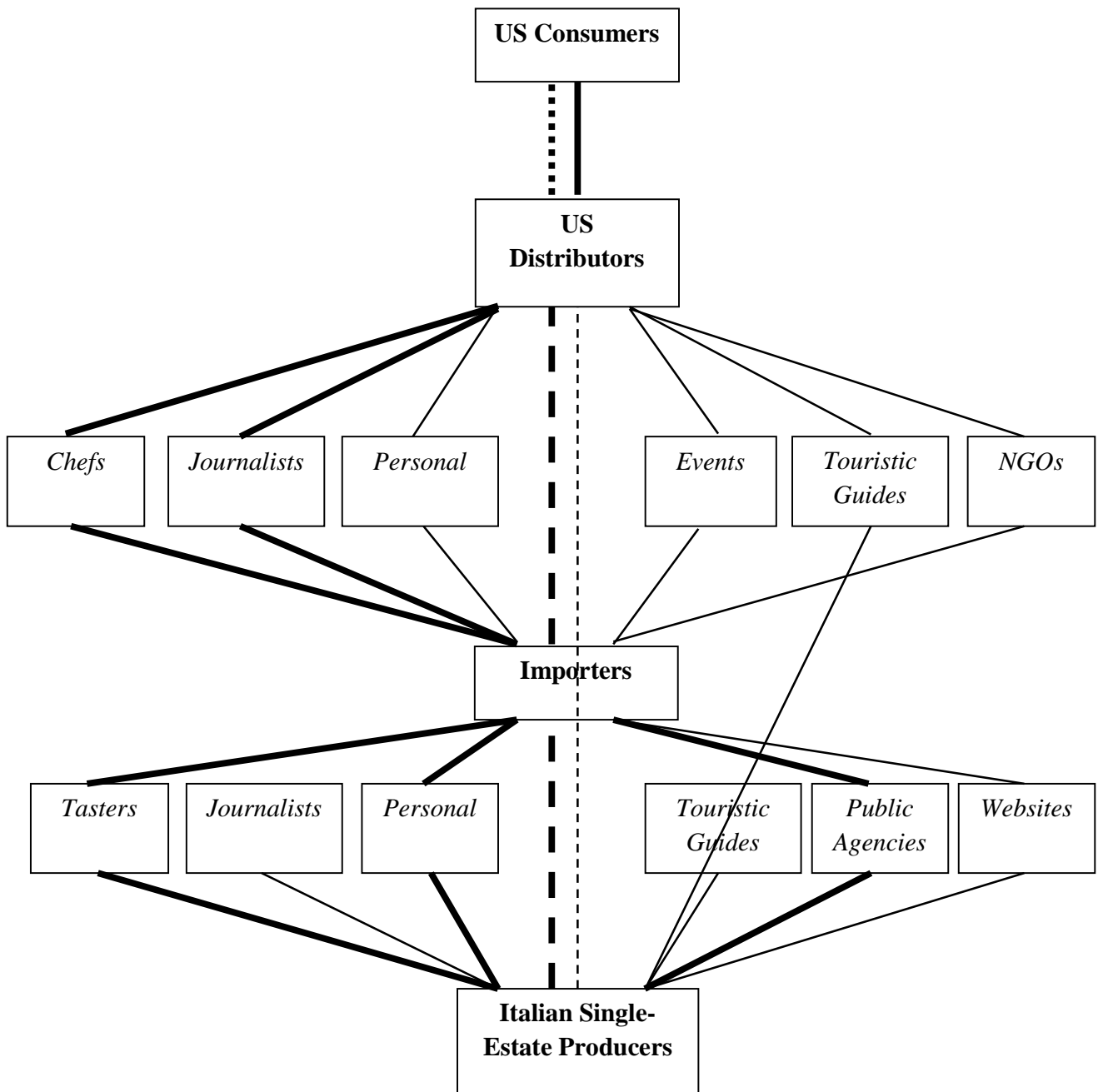
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Figure 1 - Value Chain and Social Networks in the Single-Estate Olive Oil Market



Legend: dashed line, actors managing the product and product flow; continuous line, actors managing the product information and the information flow. Line boldness represents the magnitude of the flow.

Figure 2 – The Proposed Theoretical Framework

