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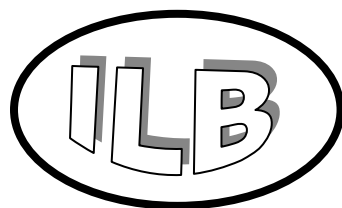
System Dynamics and Innovation in Food Networks 2009

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M. Fritz, U. Rickert, G. Schiefer



Short Food Supply Networks: Expectations, Experiences, Trust in the Case of Farmers Markets

Melanie Fritz¹ and Gaetano Martino²

¹*Dept. of Food and Resources Economics, University of Bonn, 53115 Bonn, Meckenheimer
Allee 174, Germany*

²*Dept. of Agricultural Economics and Food Sciences, University of Perugia, Borgo XX
Giugno 74, 06121, Perugia (Italy)
m.fritz@uni-bonn.de ; martinog@unipg.it*

Summary

Farmers Markets are receiving an increasing attention by both food chains actors and social scientists. Economic and sociological studies are contributing to the comprehension of these forms of exchange. Both consumers and producers are fostering their expectations about the renewal of a mode of exchange which sustained local production-consumptions linkages. The main economic function of these organizational structures seems to be the reduction of the price paid by the consumers and the enhancements of allocation of farm products. The basic interpretation of these forms of exchange focuses on market structure, nonetheless the exchange relationships seem to emphasize several dimensions, including economic and cultural aspects. The objective of the paper is of investigating the role of networks among producers and consumers in structuring and making viable the Farmer Markets as structures of short food supply chains. The basic idea is that the strength of Farmer Markets is the ability of satisfying the consumer expectations about a few characteristics of the products, entailing given cultural and economic aspects. The study argues that under this view the Farmer Markets may be thought of as a emerging form of production-consumption interaction. According to existing evidences it is suggested that the network is also the emerging forms of horizontal relationships among the producer participants to the markets. The paper aims at suggesting that basic types of trust act as key factor in structuring the networks and in promoting the stability of the market.

Keywords: *Farmers Markets, networks, trust, food chains sustainability*

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1. Introduction

The paper focuses network environments with dynamically evolving trade relationships (Fritz, Schiefer, 2008a) and recognizes that a new institutionalization process taking place in Food Chains, in which networks play a crucial role (Marsden, 2000). Recent outcomes from the Sociology of Markets (Beckert, 2007) allow to bridge the sociological framework to the Organization Economics and to address the process of institutionalization by through the network principles of organization. The study takes into consideration the Farmer Markets as forms of exchange emerging within the context of the institutionalization process, i.e. the “short-circuit” organization of the food supply (Marsden, 2000; Renting, Marsden, Banks, 2003). The Farmer Markets are forms of exchange emerging within the context of the “short-circuit” organization of the food supply. Scholars have so far addressed several issues concerning the emerging and the coordinating activities of these forms. Within the richness of the various approaches, it seems to be recognized that a convergence exist about the idea that the Farmers Markets are or-

ganizations of the exchanges whose emerging contributes to innovate the food supply systems. This innovation is variously conceptualised depending upon the stream of analysis, with emphasis on the factor determining the innovation of the outcomes of the process. More precisely Farmers Markets are thought of as distinctive forms, among other, which contribute to the profound change of the food supply chains in Europe and North America. This change can be characterised by two aspects. Firstly a role is recognised the structured social context from where the markets emerge, and often this context is conceptualised in terms of local community. Secondly, the change is interpreted in terms of consequences upon the functional distance between the site of production and of consumption: the “shortening” of food circuits (Renting, Marsden, Banks, 2003) appears thus a common trait of several forms produced by the change process at stake. Without questioning this perspective, it seems necessary to look for an answer to the following question: why do farmers choose to associate themselves instead of individually exploit the opportunities of the spot market? In order to do some attempts to answer the question, two further problems arise. The Farmers Markets usually imply the supply of farm products which require a traditional production process and do not fully employ the farm’s resources (in particular, labour and land). Therefore an analytical problem is: what are the terms of complementarity between the participation to Farmers Markets and to “long” food chains? The second problem arises due to a crucial conclusion of the sociological analysis stressing on the existence of several, competing forms of exchange within the short food supply chains. Why do competing forms exist along these chains? Provided that embeddedness is the common source, why does not a unique form arise? The third question concerns how the Farmers Markets can be assessed in light of the principles sustainability of food chains.

In searching for answers to the previous questions, the objective of the paper is to explore the impact of the network organization principles in the comprehension of the emerging of Farmers Markets.

The paper is organized as follows. After an introduction into the issue of sustainability in food networks (paragraph 2), firstly the distinctive characteristics of Farmers Markets are presented drawing from sociological literature (par. 3): it is contended that this form of exchange emerges as organizational innovation of the exchange within a more complex process of transformation of parts of food chains. The role of the markets is considered in the light of the coordination problems highlighted by the Sociology of the Markets (Beckert, 2007): this allows a more clear perspective in order to disentangle the economic factors at stake. The paragraph 4 proposes the necessity of enhancing the comprehension of the Farmers Markets as an institution of the food economy. The paragraph 5 provides shows as the emerging of Farmers Markets can be thought of as a consequences of two network orderings. The role of trust is presented as a keystone of the networks. Brief conclusions are proposed in the last paragraph.

2. The raising issue of sustainability in food supply networks

A sustainable development of our world and society means a development that meets the needs of the present without compromising the ability of future generations to meet their own needs¹. It is one of the major challenges to achieve sustainable use and production of our renewable resources, including food, to protect both the environment and human health. The food system highly impacts sustainability and the environment through, e.g., consumption of energy and sweet water, waste production, or pollution from production and food transportation.

1. As defined by the *Brundtland-Report* of the World Commission on Environment and Development: Our Common Future, 1987, <http://www.un-documents.net/wced-ocf.htm>

Sustainability is currently one of the most pressing issues for the food industry. A large number of initiatives have been started by industry and retailers alike (Fritz, Matopoulos, 2008); major industry groups have established task forces dedicated to sustainability issues. To achieve an enduring sustainability and environment-friendliness of the food system, sustainability as an all-encompassing approach must build on long-term and sustainable acceptance by consumers, the society, and food chain actors alike. The challenge in achieving sustainability for environment protection is to build on an economically viable and socially acceptable development¹. With this perspective, the understanding of sustainability does focus on assuring sustainability regarding products which have to evolve from a limited and diminishing resource base, enterprises and chains which have to remain competitive, consumers which need to receive food that is affordable, safe to eat, of nutritional value and fitting their dietary and lifestyle preferences, and regions representing the social, economic, and natural environment in which the food system has to act.

Sustainability integrates the three dimensions (see): environment (e.g., natural resources, soil, water, emissions, fossil and total energy, biodiversity), society (e.g., food quality and safety, health and obesity, social and ethical conditions, animal welfare, fairness), and economy (e.g., performance of food chains, sustainable food products, affordability for consumer²s) to assure long-term success.

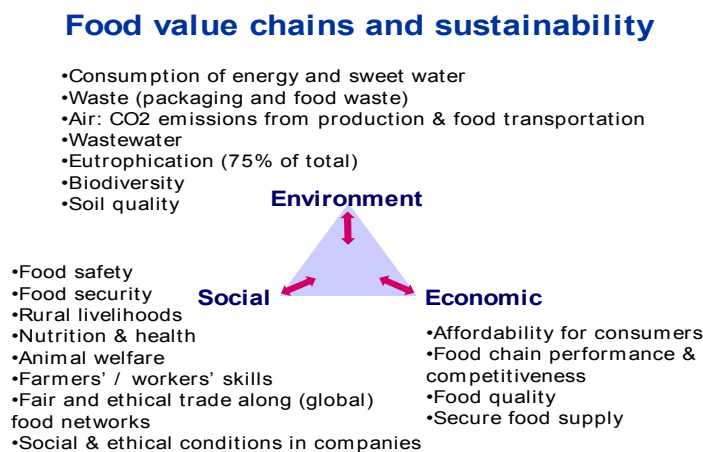


Figure 1. Sustainability in food networks

Studies on the sustainability of the food system and the methodologies applied have classically focused on environmental impacts of products or services to identify deficiencies and improvement potentials in areas such as carbon emissions, waste reduction, reduced water use, or transport reduction. Former studies have particularly focused on the consumption of energy at the single stages of the food chain; for bread and pork meat, e.g., it is known that the agricultural level of the food chain consumes most energy (Mattson, Sonesson, 2003). With the proliferation of “food miles” as an indicator for environmentally-friendly end products, those not travelled far, has become popular and widely used, even though the real indications on low carbon dioxide emissions are not captured. For this reason, the “carbon footprint” as a more realistic indicator is developing. Results on the eco-efficiency show that apples to be consumed in Ger-

1. See European Technology Platform *Food for Life*, Key Challenge 5 “Achieving sustainable food production”.

2. See *Sustainable Agriculture Platform*, www.saiplatform.org

many from far destinations (New Zealand, Chile) bear lower carbon dioxide emissions than apples produced in Germany or Italy (BASF, 2009).

There is no doubt that even further enhanced tools and methods for the assessment and management of these environmental impacts are needed¹. However, the wider view requires the development of new, holistic methods and models for food chain analysis and food chain management concepts, which inherently incorporate consumer needs. Potential solutions and strategies for the improvement of sustainability of food chains need to balance the interests of society and consumers, of the environment, and of food chain enterprises to provide a successful path towards long-term advancement sustainability. Short food chains may have the potential to create transparency, especially on social dimensions of the sustainability triangle.

3. Organizational innovations in the food chains: space (local-global), relationships (closeness), institutions (standard, certification, regulation, the governance of global food chains)

The Farmers Markets have been conceptualized as specific forms of food exchange whose importance is generally linked to the local dimensions of an economy and to the relevance of the relationship between producers and consumers (Brown, Miller, 2008; Hinrichs *et al.*, 2004). They are also thought of as distinctive elements of the complex process of redefinition of the “space” of production and consumption (Gillespie *et al.*, 2007; Marsden, 2000) In that sense they are often considered as forms of exchange characterizing the contemporary rural economies. Namely, sociological streams of analysis identify differences within the Agri-Food systems and emphasize the emerging of food circuits which cannot be classified within the global food chains, recognizing the role of embeddedness (Granovetter, 1983) in structuring the relations between agents along local food chains (Sonnino, Marsden, 2006; Higgins *et al.*, 2008). It is recognized that these circuits determine relationships between consumers and producers closer than the global food chain and that this relationship acts as a constituent of the new food space. In the analysis of the relations governing attention is paid to the process of “re-localization” of food chains concerned with the search for a more direct relationship between consumers and producers. A closer connection appears to be able to associate the food quality improvements with the restoring of public confidence and trust in food production (Higgins *et al.*, 200, p. 16). The whole process of transformation of part of the food systems is often labelled as “shortening” of the food chains (Renting, Marsden, Banks, 2003; Marsden, 2000) integrating the constitutive role of the closer and direct relationship between consumers and producers (Goodman, 2002) and the localization of the related activities. Sociologists also point out that personal interaction mediate authenticity and trust in the context of the demand for new connection between production and consumption (Marsden, 2000; Kirwan, 2006). It is also suggested that human-level judgements may locally create new production-consumption spaces (Kirwan, 2006). The shortening of the food circuits, taking place along several directions, seems to be the common characteristics of this new institutionalization of food chains (Renting, Marsden, Banks, 2003; Marsden, 2000).

Conventional chains influence the structuring of “short-circuiting” and *viceversa* (Higgins, *et al.*, 2008) and it is recognized that these two way of organizing the food supply are complementary under several perspectives (Sonnino, Marsden, 2006). The conceptualization of three basic form of Short Food Supply Chains is proposed which are based upon the organizational structure and the quality definition and construction (Renting, Marsden, Banks, 2003, pp.

1. See FP7 Cooperation Work Programme: Food, Agriculture and Fisheries, and Biotechnology.

399 ff.). The forms identified are (Higgins *et Al.*, 2008; Renting, Marsden, Banks, 2003):

- *Face-to-face* chains, where consumers purchase directly the products from the producers, authenticity and trust are mediated through personal interaction with the producer. The fostering of consumer trust in the ‘authenticity’ and the ‘quality’ of the product is crucial in building a reliable customer base.
- *Proximate* chains, extended beyond direct interaction and are based upon relations of proximity in which the product is sold in the regions of its production.
- *Extended* chain involve the selling of the products to consumers outside of the region of production who may have no personal experience of that locality.

The Farmers Markets are thought of elements of the *Face-to-face* form, namely as economic institutions acting as keystones in building more localised food systems based upon: local resources bases, skills of producers, needs and preferences of local household and development goals of producers (Gillespie *et Al.*, 2007). A distinctive characteristic of this analytical perspective is that they point out the specificity of the Farmers Markets as opposed to global food chains, strongly connected to local communities (Brown, Miller, 2008) and part of a more complex process of re-definition of the organization of supply chains with both behavioural and organizational principles being drawn from civic agriculture (Hinrich *et Al.*, 204).

Analytically, Sociologists move from the concept of embeddedness and underpin the nature of Farmers Markets as an organizational outcome of a basic social interaction among producers and consumers. Namely, the relationship between the producers and the consumers is recognized at the basis of a wide class of forms of exchange renewing the space of the rural economy and the food supply (Renting, Marsden, Banks, 2003, Gillespie *et Al.*, 2007). Nonetheless, even though many characteristics of the markets appear well explained by this standpoint, it does not fully highlight why the social interaction give raise to this form of exchange. As noted above, it is actually contended that several forms of exchange relationships and forms compete along the food circuits (Renting, Marsden, Banks, 2003; Higgins *et Al.*, 2008). Albeit complementary or competing explanations are being provided by scholars, an effort seems to be made in order to identify which economic factors and antecedents activate this competition. The social process is invoked as the basic *explanans* of the phenomena at stake and as outcomes of the institutionalization of the relationships producers-consumers, while other elements - which cannot be fully accounted for in a Sociological perspective - appear to be neglected or playing a minor role.

The conclusion of this section is that the shortening of the food circuits entail both a new institutionalization of food chains and organizational innovations which can be examined with some details in the light of the organization economics point of view. In the following the Farmers Markets are conceptualized as an outcome of two distinctive processes. The emerging of a Farmers Networks and the emerging of the constituent role of the relationship producers-consumers. The processes share the same organizational principles, the networks, and embed a role for trust.

4. The coordination problems of the markets

Despite with the recognized importance of the network environments in food chains and rural economy (Fritz, Schiefer, 2008; Murdoch, 1996), the previous perspective does not emphasize

the relationships among the producers. The method chosen here assumes that the nexus between the social networks and the Farmers Markets can be disentangled firstly by addressing the question on how the Farmers Markets allow the coordination of the agents.

It is contended that the social macrostructures – the networks, among them – promote the formation of stable expectations and the social legitimacy of market outcomes, these in turn provides the resolution of the basic coordination problems and lead to the order of the market (Beckert, 2007). The order of the market is coherent with both Information Economics and with New Institutional Economics and it is concerned with the fact that the coordination of economic production and distribution through the mechanism of market exchange brings about a system of continuous high level coordinate economic activity despite the heterogeneous motives and interests of the participant actors (Beckert, 2007, p.6). In this context the coordination problems is conceptualized in terms of:

- the *value problem*, concerning with the assignment of different values to heterogeneous goods and with the assignment of values to goods of a certain class.
- the *competition problem*, which deal with the possibilities of the actors of turning their preferences into preferred market outcomes.
- the *cooperation problem*, it arise form the social risks that market actors incur because of their incomplete knowledge of the intentions of their exchange partners and the quality of the product they wish to purchase (Beckert, 2007, p. 20).

It is argued that processes of standardization, cognitive anchoring, normative legitimation and social positioning that the subjective value attributions arise with which market actors assign value to goods (Beckert, 2007). On the other hand, all these aspects have been widely investigated by the sociological literature (Marsden, 2000; Kirwan, 2006; Gillespie *et al.*, 2007) and it is recognized that the networks support knowledge formation (Ancori *et al.*, 2000) and cognitive anchoring (Grandori,). The trade-off between human judgements and the adoption of standards have been implicitly proposed by literature on Farmers Markets, while the role of communities in legitimating the farmers actions has been widely recognized (Brown, Mitchell, 2008). This suggests that Farmers Markets address the value problem is basically relying on the relational frameworks (Lockie, 2002).

According to Beckert, actors address the problem of competition by attempting to shape the terms of competition, changing the market structures affecting their markets positions and profit opportunities. The Farmers Markets have been conceptualized as an outcome of complex processes activated to construct alternative to “long” exchange circuits. In this sense, they represent a solution to the problem of competition. Furthermore, the network producers-consumers favour the creation of confidence among the exchange partners promoting communication and the development of shared experience. On the other hand, this network represents a governance form structuring the market and facilitating the emerging of trust (Fritz, Martino, Surci, 2008).

The three problems illustrate how the Farmers Markets operate as coordinating institutions. The point is that the disciplinary perspective mentioned, does not fully make clear how and to what extent society matters. In emphasizing the fact that institutions are historically and cognitively constrained (Beckert, 2007, p. 11) it is simply contended that a boundary exists between the society sphere and the individual action. For instance, the actors’ interests for the food - i.e., the product - is usually taken for granted within an existing interaction process, but this also deals with the need for regulatory institutions of the agents relationships, as highlighted by the New Institutional Economics (Furubotn, Richter, 2001) and the Sociology of the Markets (Beckert, 2007). The social interaction has to be explored more in detail in order to enhance the com-

prehension of the emerging of Farmers Markets. Even though many characteristics of the phenomena investigated appear well explained by the standpoint mentioned, it does not fully highlight the way according to which the social interaction give raise to the forms of exchange observed. It seems reasonable to maintain that this relationship does not disappear within the social process, rather the latter influences the former by setting incentives for organizational choices (North, 1990, 2003). There are three elements to support this idea. Firstly, the incentives are the basic motivation of economic coordination through the market, therefore the adoption of a specific form of market has to be related to specific incentives it is expected to activate. Under this view the “shortening” process is thought of as able to determine specific incentives provided the close relationship between producers and consumers. In the remaining of the paper, we suggest that these incentives should have various natures. Secondly, the attention paid by Sociologists to the quality issues corresponds to the focus of the relationship between characteristics of the product and the organizational choices which appear to be really influential in shaping the organization of European food chains (for example see Raynaud, Sauvé, Valceschini, 2005). Thirdly, the analytical frameworks at stake identifies a sort of trade-off between standards and human-judgements (Kirwan, 2006; Higgins *et Al.*, 2008) which appears to be a matter of efficiency: human-level judgements are influential in assessing the quality of the product as well as standards are required as the extent of the market increases. In other words, bounded rationality matters and the scarcity of cognitive resources determine costs faced by the agents.

The hypothesis considered here is that the network organizational principle allows to delineate in more detail the emerging and the working of Farmers Markets and, with respect to the sustainability, to provide explanation of the social performance of this institutions.

5. The Farmers Markets and the network organization principle

A question which should be addressed concerns what is the organizing principles adopted in Farmers Markets. This turns to our original question: why do farmers choose to associate themselves instead of individually exploit the opportunities of spot market? This association reflects the farmers’ expectations about their trading activities. Provided the light connection among farmers and its horizontal pattern, we suggest that the association can be interpreted as a network: thus the understanding of the reasons for association move from this perspective. On the other hand, close relationships between producer and consumers appear to be a distinctive characteristic of these markets. What is the meaning of the closeness it is thus a crucial point to be addressed? Sociologists conceptualize closeness in terms of opportunity of interacting: under an economic point of view this should entail further factors. Coase (1937) provides a basic theoretical framework to elaborate analytical approaches to the study of the exchange. Transaction Costs Economics (Williamson, 1985, 1996) thus sheds light on the competition among forms of exchange in terms of efficient choice of the governance structure. Organization Economics has enhanced the comprehension of relationships among firms in a supply chain (Soda, Grandori, 1995) and provides the analytical tools to investigate the field addressed here. The concept of network is thus considered at two levels: it is invoked in the relationships producers-consumers (Sonnino, Marsden 2006; Renting, Marsden, Banks, 2006), but it is also seen playing a role in the relationships among the farmers.

The hypothesis proposed here is that the Farmers Markets emerge as outcomes of a network of farmers and of a network of producers and consumers. We add to the analytical framework mentioned above by arguing that:

- specific economies are common antecedents of the farmers networks giving raise to the markets;
- Farmers Markets reflect a network organization principle as they often share common staff and pool buildings and further resources;
- Trust is an outcome of the network (Grandori, Soda, 1995), due to the interaction among producers, experience and communication;
- Trust is an outcome and a keystone of the network producers-consumers.

5.1 The producers network

An inter-firms network is here considered as a mode of regulating interdependence between firms which is different from the aggregation of these units within a single firm and from coordination through market signals (prices, strategic moves, tacit collusion, etc.) and which is based on *cooperative games with partner specific communication* (Grandori, Soda, 1995). It is contended here that a network of farmers (producers) emerges due to economic factors and that this network is at basis of the Farmers Market. This hypothesis is coherent with the perspective of Economic Sociology emphasizing the influences of social networks on economic performance (Granovetter, 2005) and points out the role of the cooperation problems in the market process (Beckert, 2007). Nonetheless the focus here is on the emerging of the network in the light of the Organization Economics. According to Grandori and Soda (1995) three main elements have to be considered: a) the antecedents of networks formation and forms; b) the mechanisms of organizational mechanisms by which cooperation is achieved; c) the modes of inter-firm cooperation (forms of networks).

Three main economic antecedents seems to operate to promote the constitution of the Farmers network. The first is the (weak) interdependence among the farmers which activate a Farmers market. This is usually due to the necessity of pooling resources, renting and managing the buildings where the market takes place are example of that as well as the search and the communication of information about the consumers need and expectations. The communities may support the availability of resources (Brown, Miller, 2008), while private investments tends to be really small. The basic interaction among producers and consumers also implies low costs for collecting and managing information. As a consequence the interdependence among the producers is usually weak and the partners face low costs of entering and exiting the network.

The second antecedent of the Producers network is summarized by the economic concept of economies, first of all economies of specialization and experience. Farmers connected in organizing their markets exploit the advantage of using their own resources – in particular, land, labour and tacit knowledge - in producing goods they know to produce (Marsden, 2000; Higgins *et Al.*, 2008). Furthermore, the contribution of a farmers to the market supply is sometimes complementary to the contributions of the remaining farmers. Furthermore, there are economies related to the use of unused services of resources (Penrose, 1963). The emphasis on the economics also allows one to address the analytical problem about the terms of complementarity between the participation to Farmers Markets and to “long” food chains.

The third antecedent is the necessity of choice a common staff to manage the market as an organization. Administrative issues, advertising activities and the search for public funding of the initiative are frequently managed by representative persons. The Figure 2 summarizes the influences of the economic antecedents examined.

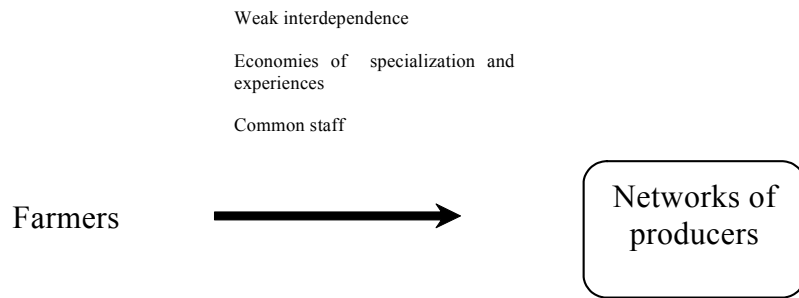


Figure 2. The emerging of producers network

The mechanism of coordination that operates within the network is mainly the social coordination and control. Group norms, even stemming from the basic community, are usually working ensuring fairly enforcement of the agreements and a sort of finalized reciprocity. Furthermore the individual reputation and peer control also operate supporting the coordination in particular in the construction of quality. It is also to consider that the common staff reduce the costs of coordinating. As for the form of the producers networks is often a simply social, personal network based on the link among the farmers. Nonetheless, this can evolve in bureaucratic network, i.e. a inter-firms coordination mode more formalized like in trade association.

5.2 The emerging of Farmers-Market

The Farmers Markets are classified as *Face-to face* (Renting, Marsden, Banks, 2003). The Organizational Economics approaches allowed to identify the network of producers as a basic factor determining the emerging of a Farmers Markets. Albeit individual farms may enter or exit the association depending on their expectations, one has to recognize the influence of the networks antecedents mentioned. The Figure 3 illustrates the emerging of Farmers Markets due to the pushes of two networks: the producers network and the producers-consumers networks.

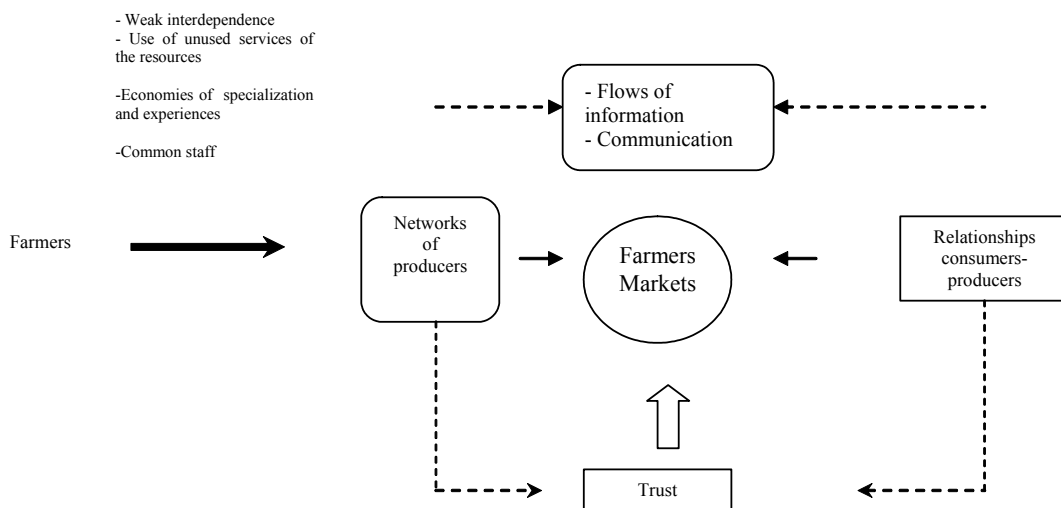


Figure 3. The emergence of producers network due to pushes from two networks

The direct contact between producers and consumers identify a general trait of the market institution which also influence the competition among the farmers. Furthermore, it mediates trust and authenticity and gives raise to the settlement of quality approaches based on human judgments. The systematization of the information within an articulated cognitive framework contributes to the creation of common knowledge, which in turn fosters communication patterns (Ancori *et al.*, 2000) which in turn influence the market activities. Under this view trust operates at level of the two networks, but it also appears to be a characteristic of the markets *per se*. It has also to point out that a problem is posited due to a crucial conclusion of the sociological analysis stressing on the existence of several, competing forms of exchange within the short food supply chains (Renting, Marsden, Banks, 2003). Provided that embeddedness is the common source, why does not an unique form arise? The idea here is that the Farmers Markets considerably reduce the search and information costs for consumers and producers, then they exhibit an advantage with respect to the simply individual, spot market.

Attention has also to be paid to sustainability as a basic principle of the food chains architecture and Food research (Fritz, Schiefer, 2008b). Firstly it has been noted that the Farmers Markets meet the pre-requisite for long-term sustainability: the transparency along the chain and the communication of sustainability to consumers (Fritz, Schiefer, 2008b, p.2). On the other hand, the assessment of the level of sustainability of the Farmers Markets has to be elaborated within a more general analytical framework, addressing the mapping of the sustainability. Thirdly, as among the crucial issues to be addressed there is also the simulation of new chains (Fritz, Schiefer, 2008b), better equipped in terms of sustainability, one may wonder whether or not Farmers Markets allow for this outcomes. It is just the analysis proposed which allow for a preliminary, tentative answer. We recognize that the extent to which (sustainable) Farmers Markets can be diffused in no larger than the functional space delimited by the factors operating as their antecedents.

6. Final remarks

The paper has considered the Farmers Markets as an institution of food exchange. The main outcomes of the sociological perspective have been examined and it has been pointed out that further factors have to be considered in order to enhance the comprehension of these markets. Thus the discussion of the coordination problem solved by the Farmers Markets is proposed and it has been conceptualized the emerging of the Farmers Markets as an outcome of the activities of the network of producers and the network of producer-consumers.

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