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118th EAAE Seminar

“Rural development: governance, policy design and delivery”

Ljubljana, 25-27 August 2010

MULTIFUNCTIONALITY AND VALUE CREATION IN RURAL AREAS OF SOUTHERN ITALY

Concetta Nazzaro^{†‡}, Giuseppe Marotta[†]

[†] Department of Analysis of Social and Economic Systems, University of Sannio,
Via Delle Puglie 82, 82100 Benevento, Italy

[‡] cnazzaro@unisannio.it



*Paper prepared for presentation at the 118th seminar of the EAAE
(European Association of Agricultural Economists),
‘Rural development: governance, policy design and delivery’,
Ljubljana, Slovenia, August 25-27, 2010*

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Multifunctionality and value creation in rural areas of Southern Italy

Concetta Nazzaro[†], Giuseppe Marotta[†]

[†] Department of Analysis of Social and Economic Systems, University of Sannio, Benevento, Italy

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 *optimal value portfolio* (OVP) 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. 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. We have empirically verified this approach on selected agro-food chains which are located in rural areas characterized by different levels of development.

From the findings we have defined various ideal types of farms that allowed us to make future scientific assumptions and highlight normative implications for improving managerial decision-making processes based on the VPMGA model. 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, rural development, positive externalities, value chains.

JEL: Q12, Q18, Q19

1. Introduction and aim of the paper

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 results of the study 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 results may be used as a useful tool for future scientific hypotheses and policies aimed at rethinking the relations between rural areas 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 rural areas.

2. Theoretical background

2.1 Multifunctionality, rural development and value creation. Functional transformations of farms and rural areas

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 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,

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.

jointly² 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 developed⁴. 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 incentive⁵ 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 (multifunctional) farm model which, through broadening/deepening strategies and territory integration, finds a form of “monetization” for the positive externalities it yields. It is exactly the interaction between the “paradigm of multifunctionality” and the “paradigm of integrated rural development” that favours a deep functional transformation process of farms and rural areas which is the basis for the creation of new forms of value.

Therefore, the pathways to value creation of modern farms would be based on *opportunity gap* chances (Prahalad, 1993) which are associated with the promotion of the role of multifunctional agriculture, broadening, deepening, competitiveness, and last but not least, integration processes with other components of the rural territory (Pecqueur, 2001).

Farms have adapted 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.

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 Boatto, 1999; Abler, 2001b; Boisvert, 2001; Hagedorn, 2004; Havlik *et al.*, 2005 e 2006; OCSE, 2001; 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; Velazquez, 2004; Marangon and Troiano, 2006; Petrick, 2006).

⁴ Over the last decade various theoretical contributions have proposed new empirical solutions towards the “making of profits” 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 Huylenbroeck 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: the “value portfolio”

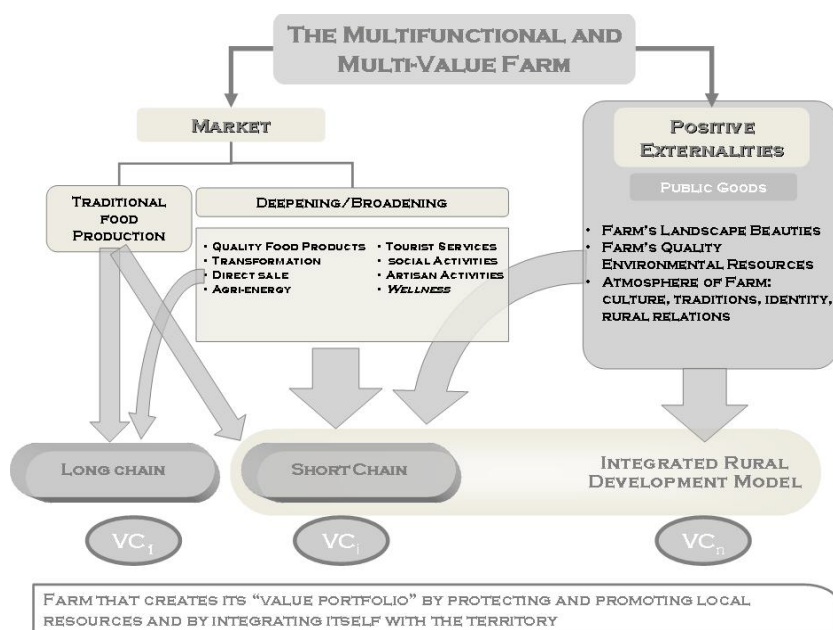
In the light of the theoretical overview, farms have the opportunity to define different competitive strategies to apply either separately from each other or, as is more often the case, as a mix of three boundary shift options (deepening, broadening and re-grounding) in order to penetrate the market 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 externalities⁶ 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 farms⁷ (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



Source. Our elaboration

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.

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 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 portfolio⁸ (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 portfolio⁹. 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.

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 market place» (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.

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.

The need to empirically verify how functional this theoretical model *is has led us to investigate the variables which determine the optimal value portfolio*. To this end, we have reviewed the literature of the field and have applied¹⁰ both the “traditional” approach of the *value chain analysis*¹¹ (VCA), (Porter, 1985; Cormick, Schmitz, 2002; Schmitz, 2003; Gereffi, Humphrey and Sturgeon, 2005), it being a useful tool to reconstruct the various strategic processes which followed the choices of boundary shift, and the *governance value analysis* (GVA) approach (Ghosh e John, 1999, 2005).

With reference to the literature cited, a value chain is formed by a set of activities which are necessary to create and transfer a product or a service from its production to its final use. A value chain is characterized by its own real “structure”, “geographical distribution”¹² and “governance”¹³ (that is stakeholders’ decisions and auditing levels over the different stages in the chain).

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 new 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)¹⁴.

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 (Huemer, 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 Storper 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).

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 subjects and it was proposed by Ghosh and John (1999) in their business studies. It analyses the methods by which the value is created and managed. In doing so, two theoretical trends¹⁵ have been summarized: the *resource-based view* “RBV”) (Peteraf, 1993) and transaction cost economics (*transaction cost analysis*, “TCA”), (Zajac and Olsen, 1993; Williamson, 1996, 1998; Menard and Shirley, 2005). The GVA model comprises four main elements¹⁶ whereby the creation and support of value are the two fundamental processes comprising of namely, resources, positioning, transaction attributes¹⁷ and governance forms¹⁸. The interaction and interdependence of these four factors «constitute the core of the GVA framework» (Ghosh and John, 1999: 2).

Following this path, we therefore propose a new methodological approach that is not limited to an *economizing calculus*¹⁹ (i.e. linked to the sole reduction of transaction costs), but with greater importance placed on strictly strategic profiles (*strategizing calculus*) considering that «The strategizing calculus argues for a simultaneous, three-way choice of resources, investments and governance that yields the highest expected outcomes» (Ghosh and John, 2005: 146).

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 sectors²⁰. 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

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.

tool to re-address business strategies²¹ 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 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.

21 In this way, a new awareness for the “value” of territory would be raised within local policy makers and stakeholders.

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).

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.

Table 1. The determinants of OVP

FARMS' INTERNAL RESOURCES (IR)	MARKET (M)	TERRITORY (T)	POLICIES (P)
Human Capital (entrepreneur and family, generational turnover, available skills)	Healthy and safe food	Natural resources (protected area, landscape assets)	Externalities Positive (EP) Creation (conditionality, measures of Axis II of the RDP)
Physical resources (size, total machinery, etc)	Demand for rurality (new tourism)	Historical/cultural resources (historical and cultural places of interest)	Use of EPs (measures of Axes III and IV of the RDP, other tools)
Financial resources (capacity to self-funding and to have access to policies)	Demand for social services (agro-therapy, hippo-therapy, including child care facilities, etc)	Quality indications (territorial labels)	Provision of multifunctionality related services ("guidance" law)
Intangible assets associated with multifunctionality (environmental, landscape and cultural resources etc.)		Social capital (co-operations, associations, voluntary and civic networks)	
Relational networks (networking)		Fixed social capital (access to the territory, internal mobility, services for companies and individuals)	
		Local economy diversification (extra-agricultural sectors)	
		Institutional sphere (quality of local government)	

Source. Our elaboration

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:

$$[OVP = f(\mathbf{ri}|\mathbf{m}; \mathbf{t}; \mathbf{p})] \quad [1]$$

$$\text{with } \mathbf{ri} = \begin{pmatrix} ri_1 \\ ri_2 \\ \dots \\ ri_k \end{pmatrix} \quad \mathbf{m} = \begin{pmatrix} m_1 \\ m_2 \\ \dots \\ m_k \end{pmatrix} \quad \mathbf{t} = \begin{pmatrix} t_1 \\ t_2 \\ \dots \\ t_k \end{pmatrix} \quad \mathbf{p} = \begin{pmatrix} p_1 \\ p_2 \\ \dots \\ p_k \end{pmatrix}$$

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:

$$[OVP = \sum_i \mathbf{va}_i = \sum_i f_i(\mathbf{ri}_i|\mathbf{m}_i; \mathbf{t}_i; \mathbf{p}_i)] \quad [2]$$

$$\text{with } \mathbf{va} = \begin{pmatrix} va_1 \\ va_2 \\ \dots \\ va_k \end{pmatrix} \quad \text{and } \mathbf{ri}_i|\mathbf{m}_i; \mathbf{t}_i; \mathbf{p}_i \text{ as in [1]}$$

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.

5. Methodology

We have carried out an empirical test to verify if the methodological assumption of the VPMGA could be validated. To this end, we have investigated both the multifunctional governance mechanisms and the OVP components by analysing the functional links among the four families of determinant variables previously considered, the implemented changes (boundary shift) and the impact on the creation and optimization of the VP.

We have conducted field-analysis on a sample of zootechnical (beef cattle, swine and buffalo meat) farms²⁴ (our case studies)²⁵ located in the Campania Region²⁶ of Italy. These enterprises were

²⁴ We have selected 40 farms for each of the two production chains, 20 of which were traditional enterprises and the other 20 had broadened and differentiated their production activities.

²⁵ They were part of a research project titled "New agricultural models and pathways to value creation in the local Campania systems" which was assigned to the Department of Analysis of Social and Economic Systems, University of Sannio (acting as leader) by the Consortium for Applied Research in Agriculture of the Campania Region. Other

selected²⁷ on the basis of their chain's essential activities, traditional core business and broadening and/or deepening productive activities.

We prepared an exhaustive questionnaire which we administered to these firms in order to gather information and investigate both the determinant factors which form these firms' value portfolio, and their interdependences with boundary shift strategies, i.e. their strategic repositioning in the market place (see Table 1). Thanks to the questionnaire, which is composed of six parts, we have traced the structure of the value chain²⁸, based on each activity/function under review and managed to identify the following key aspects:

1. *Corporate functions* (production specialization; boundary shift pathways);
2. *Organizational structure and economic performance* (corporate human capital; labor; business results and firms' financial characteristics);
3. *Environmental performance* (soil and water resource management, chemical input, landscapes);
4. *Networking* (quality signs; production chain relations, transaction governance, commercialization; social networking);
5. *Policies* (access to policy instruments for generating or exploiting positive externalities);
6. *Corporate strategies* (strategic guidance, value creation and VP determining variables).

In addition, the empirical test has included theme-based focus groups from the reference territorial area which were represented by entrepreneurs, insiders, representatives of professional organizations, trade associations and protection consortia, as well as local stakeholders such as representatives of local government bodies and *policy* instruments.

The data thus collected²⁹ have been analysed by means of both single-variance and dual-variance descriptive statistics.

Through this methodology we have also identified different ideal types of farms in relation to the value portfolio created and its determinants. In this way, we could validate the expected results of the VPMGA.

6. Results of the empirical analysis

Structural figures – The structural characteristics of the zootechnical farms under review have revealed that the vast majority of them (about 80%) were set up during the first half of the 90s (1993-1994) and have been operating as a family-run business for about a decade with managers aged between 41-45. From the size of above-mentioned farms in terms of Total Cultivated Area (TCA) it appears that zootechnical enterprises from Piana del Sele stretch over larger areas (up to about 70 hectares) compared with the farms located in Sannio extending over less area (about 40 hectares). The dynamic level of both types of farms is also noteworthy as they have demonstrated an increased tendency (about 80%) towards investment on new systems and productive solutions associated with average to high technology innovation in their production processes.

Strategies of value creation – The analysis of farms' strategic behaviour has allowed us to verify that about 90% of the interviewed entrepreneurs have claimed that their companies *do* create value.

In particular, we have observed that farms who opted for boundary-shift repositioning processes were mostly those who have claimed to generate value (100% of Sele's and 86% of Sannio's zootechnical farms). A different behaviour has been shown only by the zootechnical farms in Sannio which have

research units, which collaborated to this project, were the University of Bari, Cassino, Napoli ("Federico II" Portici and Parthenope) and Salerno.

²⁶ Namely, the Fortore-Alto Tammaro (in the Sannio beneventano area) for the zootechnical sector of beef cattle and swine meat and the Piana del Sele for buffalo meat.

²⁷ The selection was made via preliminary focus groups (with representatives of professional organizations, trade associations, protection consortia and local stakeholders) which had to ascertain that the required conditions were fulfilled and relevant in order to identify firms to be analysed as case studies so that the defined theoretical/methodological model could be tested for its effectiveness.

²⁸ The performed activity was current at the time of the survey and previous to the hypothetical territorial/sectoral, local/global boundary shift.

²⁹ For the sake of conciseness only the main results of the empirical test shall be explained. For a more detailed analysis see the complete Report on the research.

maintained their traditional core business. In this respect, 47% of them have claimed to be generating value.

Nevertheless, in order to provide a comprehensive and reliable assessment in terms of value creation methods, we have analyzed the boundary shift paths, i.e. the types of activities, productions and functions making up the value portfolio of the enterprises under review. Considering that both the farms from the zootechnical beef cattle and swine production chain of Sannio beneventano and the ones from the buffalo meat production chain of Piana del Sele have preferred deepening activities (64,3% and 91% of cases, respectively) compared to the broadening ones (less implemented activities accounting for 29% and 4% of farms, respectively), the analytical reading of the figures shows different paths. In the case of the deepening strategy, farms have primarily focused on meat product processing and productions with origin labeling to which mainly Sele's farms have added direct sale (23%). As to the broadening strategy, buffalo meat farms seem to have expanded their activities only over agro-tourism at very low percentages (4%) whilst beef cattle and swine farms have pointed mainly to tourist activities (16,7%) agro-energy production (7%) and educational farms (5%). In the last case, outsourcing (7%) also plays a role in increasing companies' profits as it has steered them towards re-grounding paths (integration with the rural context).

According to the data collected from the focus groups, the fact that zootechnical farms of both chains exhibit greater preference towards transforming and deepening their activities is due to their productive and territorial features (availability of country of origin labels, especially in the Piana del Sele) as well as their family resources (optimization of human resources within their own family business). In addition, these farms have also been driven to deepen their activities by opting predominantly for agro-tourism thanks to valuable environmental and landscape resources, intangible assets associated with multifunctionality and the need to promote the farms' traditional productions through channels allowing them to derive increased added value portions. Decisive factors for these companies in moving towards rural hospitality include country of origin labels, family-based human resources, larger company areas.

In this respect, we have recorded that 80% of entrepreneurs of both zootechnical chains are fully satisfied with their company strategic repositioning choice as this is predominantly associated with major company profits. As a matter of fact, the economic results made by the farms investigated have demonstrated how boundary shift choices have been economically profitable. The distribution of turnover over the various classes³⁰ identified shows an interesting dynamic pattern of firms which have broadened or deepened their activities and productions compared to those which have stuck to their traditional core business. In the first type of companies, we have observed that, at present and compared to farms' start-up year, the lowest turnover class (below €20,000) has decreased while the highest turnover class (over €50,000) has increased. However, Sele's zootechnical farms have revealed a more significant growth variation in the high turnover class compared to their start-up: 90% of companies interviewed has a turnover over €50,000. Sannio's zootechnical farms, instead, exhibit better business performance in the medium turnover class: about 34% of companies interviewed lie in the €21,000-30,000 turnover class and 24% in the €31,000-50,000 class. While traditional companies of both production chains, instead, show a less interesting business performance. Despite overall turnover growth over time, it falls in the medium class and at lower levels.

As to the distribution of turnover by type of activity, the survey has revealed that the turnover from boundary shift has significantly increased. Compared to the companies' start-up, the turnover associated with deepening activities in both chains has increased by about 13% in Sannio's chain and 7% in Sele's chain while the turnover linked to broadening activities has increased by 9% and 48%, respectively. Compared to these remarkable increases, the turnover from traditional agricultural activities has substantially decreased (-25% in Sannio's zootechnical farms and -53% in Sele's zootechnical farms).

From the data presented above we can claim that boundary shift strategies allow new interdependent and complementary value chains to be created by permitting farms to broaden/deepen their own product portfolio, increase their profits and open new business opportunities. In this respect, the rural

30 Within the questionnaire and the field analysis we have established four turnover classes (< €20.000; €21.000-30.000; €31.000-50.000; > €50.000).

development community policy has also played a significant role in supporting farms to diversify their agricultural income and supporting their strategic change choices. As a matter of fact, the vast majority of zootechnical entrepreneurs (64% from the Sele area and 78% from the Sannio area) have declared to be satisfied with such results.

Value determinants - As to the determinants creating value in the companies under investigation, we have gathered useful information from analysing the impact of the four variable families generating the OVP. This analysis has been carried out on the basis of the broadening/deepening degree³¹ implemented by the companies. We have verified the relationship between the value determinants and the broadening/deepening degree. As a result, company “internal resources” *do* represent the main value determinant in boundary shift processes as they have proved to have a major impact on both the production chains under review. Internal resources remarkably influence the value portfolio creation in zootechnical enterprises of Sele and Sannio showing a *low* (1 activity) broadening/deepening degree (43% and 41%, respectively) a *medium* (2 activities) degree (43% and 50%, respectively) (see Table 2).

Table 2. Determinants of value and degree of broadening/deepening

Determinants	<i>Low</i> 1 activity		<i>Medium</i> 2 activities		<i>High</i> ≥ activities	
	Zootechnical farms Sannio (%)	Zootechnical farms Sele (%)	Zootechnical farms Sannio (%)	Zootechnical farms Sele (%)	Zootechnical farms Sannio (%)	Zootechnical farms Sele (%)
<i>Farms' internal resources</i>	42	43	50	43	29	-
<i>Market</i>	23	9	23	23	16	-
<i>Territory</i>	11	40	14	33	7	-
<i>Policy</i>	24	8	14	1	48	-

Source. Our data processing

It should be emphasized, however, that the broadening/deepening activities implemented in the first two cases (*low* and *medium*) have a structural character as they mainly exploit the resources available in the company (notably physical, human resources and intangible assets). The presence of young and motivated entrepreneurs, who, above all, are aware of their new role, the availability of physical and human resources including the capacity to yield intangible assets have responded to market signals acting as main variables within the family of “internal resources” to determine the composition and degree of the value portfolio (see Table 2).

With regard to the other determinants, different types of behaviour have been recorded in the two chains depending on the degree of the boundary shift. The role of *policies* becomes particularly relevant only in Sannio’s zootechnical farms and in *high* broadening/deepening cases (48%). In this case, the support given by policies allows companies to add complementary activities/productions/service to their basic offer. In this way, the specific company resources can also be optimized. Thanks to the information from the focus groups we verified that the value creation policies within Sannio’s zootechnical farms (as opposed to Sele’s ones) have acted as an incentive to boundary shift paths (Axis I and III of the RDP) and to the creation/production/use of positive externalities (Axis II, III and IV of the RDP) which, however, should still be optimized.

Nevertheless, it should be noted that policies have a significant impact on Sannio’s zootechnical chain as they are implemented in a still geographically marginal rural context which, besides suffering from a lack of service, gives very little impulse to the broadening of multifunctional services. Conversely, as the zootechnical chain of Piana del Sele operates over a better organized territory in terms of geographical location, social infrastructure and strong distinctive qualities (country of origin labels), it appears that the

³¹ Classified on the basis of broadening/deepening activities of the enterprise: *low* (1 activity), *medium* (2 activities) and *high* (≥ 3 activities).

territory variable has a major influence on the value portfolio creation. As a matter of fact, the territory plays a key role in the value creation of buffalo farms as it can be seen from the highly significant indices (1 activity: 40%; 2 activities: 33%). Besides adding quality to their productions, the availability of labels of protected denomination of origin (PDO)³² work as a pushing factor for farms to move not only towards deepening activities, but also to broadening ones by promoting their products through the channel of agro-tourism. In this way, rural areas can also be exploited as a tourist resource.

On the other hand, the territorial variable has almost a marginal impact on the value portfolio creation within Sannio's zootechnical farms (*low*: 11%, *medium*: 14%, *high*: 7%). Nevertheless, the poor or negative impact of this variable on the value portfolio composition choices seems to be attributable to the "local government bodies" and the "fixed social capital" (see Table 1). As a matter of fact, companies have a rather conflictual relationship with local governments as the latter appear largely unconcerned with the complexity of the production chains and territory development. This relationship is even worse a result of the geographical marginality (mountainous area) and the lack of social infrastructure (services for individuals and companies), which prevent the *territory* determinant from having a relevant influence on the value creation. This means that even though the symbiotic relationship between production chain and territory appears to be bound by a tight link, it still has to be accomplished.

The *market*, instead, has revealed to be a driving factor in terms of demand for healthy, high-quality and safe food including rurality and proximity to the farm both through broadening or deepening activities and the territorial environment quality. In this light, the market seems to represent a relatively significant variable (23%) for value portfolio creation in zootechnical farms which have implemented between 1 to 2 broadening/deepening activities (see Table 2).

However, the role of value creation policies in traditional farms which have not adopted any boundary shift strategies is important only in the case of Sannio's zootechnical chain (36%) as it shows a sort of *policy dependent* strategic behaviour (CAP Pillar I). These farms have essentially used or conceived these policies only to improve the efficiency of their traditional productions and consolidate their market position. On the other hand, the zootechnical farms from Piana del Sele which have maintained their traditional core business have shown a fairly similar business attitude to their equivalent farms which have implemented deepening and broadening paths. Therefore, internal resources (57%) and territory (37%) have proven to have a greater influence also in this case.

Governance for value creation - In this study, we have analysed the governance methods for value creation by interpreting the contractual relations. As a result, the reasons accounting for value creation may lie in the stability of contractual relations among the elements of a value chain.

In this respect, we could verify how the boundary shift applied in the companies has determined a territorial re-allocation of processes (in terms of suppliers and market of agricultural produce) for both production chains compared to the companies' start-up. As to the geographical localization of suppliers and since companies' start of business, both zootechnical chains of Sannio and Sele have shown a reduction in the presence of local suppliers (-15% and - 8%, respectively) and an increase in business relationships with regional agents (5% and 11%, respectively). Similarly, the turnover percentage associated with the sale of agricultural produce on regional and extra-regional markets has increased. In particular, Sannio's zootechnical farms have recorded higher turnover growth indices (+33%) on regional markets while there has been a turnover increase in Sele's zootechnical farms on a local scale.

From the analysis of the business transactions we determined a stability in contractual relationships in both chains. We observed that about 58% of zootechnical farms in both chains have had stable contractual relationships with the same counterparts for 5 to more than 10 years, compared to 29% of buffalo farms and 40% of beef cattle and swine farms which have had less consolidated relations (1-5 years). As a result, this is certainly a positive aspect of value governance as it reveals a significant presence of relational goods especially in terms of trust building and maintaining. To prove this, we would like to highlight how entrepreneurs of both chains reporting less stable contractual economic conditions have ascribed this situation, in the first place, to unfavorable economic conditions (39% of Sele's and 27% of Sannio's zootechnical farms) subject to high transaction costs. We have confirmed these figures also by detecting that the critical stages in the chain (compared to the companies' start-up) lie in the business relations between farmers and suppliers (100% of Sele's zootechnical farms) and

32 All the interviewed farms produce Italian Protected Designation of Origin (PDO) buffalo mozzarella cheese.

between the large distribution and production companies (72% of Sannio's zootechnical farms). In the latter case, the production companies have complained about poor contractual power and high production costs compared to very low product prices.

Consequently, thanks to the main results of the empirical analysis, the theoretical-methodological assumption presented in this paper can be validated. In particular, we can confirm there *are* functional links acting among the four family determinant variables investigated, the boundary shift choices and the value performance. Above all, we have verified that the four family variables have a different impact on the OVP creation in multifunctional farms within specific territorial contexts.

Furthermore, the empirical results have also allowed us to identify two types of enterprises on the basis of the relationship existing among OVP determinants (value performance), boundary shift degree and governance structures. The two types of enterprises mentioned above are:

- a) An *internal-asset based enterprise*, i.e. a company with a value portfolio based primarily on "internal resources" acting as determinant;
- b) A *policy-catching enterprise*, i.e. a company with a value portfolio based primarily on "policies" acting as determinant.

Companies which, instead, have maintained their traditional core business may be referred to as

- c) *policy dependent* as their entrepreneurial models "depend" on policies.

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.

The empirical analysis has allowed us to identify three ways of "managing" the business portfolio with which different determinants are associated. Enterprises maintaining their traditional core business are shown to be extremely "policy dependent". However, in the light of a possible reduction of public funds based on the EU budget prospects after 2013 (*Budget review* and the weight of the CAP), it is evident that these enterprises appear to be the most vulnerable businesses in the entire rural area production scenario. This is particularly true for firms which are heavily lagging behind in development also a result of increased international competitiveness caused by market liberalisation. Nevertheless, considering the fundamental multifunctional role of these rural areas, the loss of resources deriving from a probably decline of traditional firms, may jeopardize all prospects of sustainable development. However, these types of enterprises may have an opportunity for sustainable development provided, that, at least, they can count on physical and financial resources and a generational turnover. This will depend on their possibility to trigger boundary shift processes through ad hoc and effective policies (especially with CAP Pillar II) to eliminate those restrictions that are currently impeding their transformation (internal resources and territory).

While enterprises, which, are currently undergoing "a transformation" process, can use the OVP as an effective strategy for diversifying their business risk because the OVP can tackle the serious issue of price volatility and farmers' income resulting from market globalization. In this way, new and interesting prospects for sustainable development may be opened. On focusing our study on these types of businesses and taking into account the degree of their deepening and broadening activities, we have verified that there are variables which weight differently on the creation and size of the OVP. Nevertheless, considering the "market", in general, as a driving factor, we have observed that the company "internal resources" *do* represent the VP determinant in the low-medium boundary shift cases leading us to define so-called "internal-asset based" models. The "policies" implemented in chains located in rural areas with a delay in development, have quite a significant impact on the initial stage (1 activity) of VP creation and a prevailing weight on the VP highest size (≥ 3 activities) phase. This allowed us to identify so-called "policy-catching" enterprises. Entrepreneurs of these companies tend to seek policies as opportunities to enlarge the company portfolio through complementary activities as opposed to the territory variable which substantially supports value creation processes especially where the territory is characterized by strong distinctive qualities (country of origin labels).

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 of Southern Italy (such as the ones investigated in this study), already lagging heavily behind. In fact, this deficit impedes networking among enterprises and between institutions and enterprises which could tackle the new competitive challenges.

In conclusion, the findings from our analysis described earlier suggest that multifunctional agricultural firms operating in rural areas lagging behind need ad hoc supporting policies in order to activate transformation processes. However, as we have previously reported, these policies are not often sectoral as they lie outside the specific competence of the EAFRD but fall within the Structural Funds. In this respect, it should be underlined that over recent years the tendency of rural development policy to move towards tools aimed at diversifying rural economies (Axes III and IV of Rural Development Programmes, "RDPs") has had two consequences, at least, in southern Italy. Firstly, it has completely directed all development and growth interventions for enterprises and territories to RDPs. Secondly, it has caused Structural Funds to be little exploited which, conversely, were more and more concentrated on urban policies and large infrastructural projects. This has systematically excluded the most marginal rural areas and has clearly widened the development gap between urban and rural areas whereby the latter have developed territorial conditions not fully supporting or embedding boundary shift processes of multifunctional farms. All these aspects should be taken in further consideration in the current debate on the CAP reform (Pillar I) and above all, on the role and tools of rural development policy (Pillar II) as the latter is called for an impossible mission (i.e. an integrated development of rural areas) with inadequate and insufficient tools (Axis III).

Strategies and normative implications will not therefore be effective unless the Funds are fully integrated (the EAFRD, ERDF and ESF) and sector and context policies strengthened.

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