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SME network relationships and competitive strategies in the agri-food sector: Some empirical evidence and a provisional conceptual framework

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SME network relationships and competitive strategies in the agri-food sector: some empirical evidence and a provisional conceptual framework

Abstract

Purpose. The objective of this paper is to identify the main factors influencing agri-food SME participation in business networks and to evaluate the impacts of these factors on network structure and the ensuing competitive strategy.

Design. The study is articulated in four main steps. First, a critical literature review is conducted concerning the main approaches to firm competitive advantage and the role of stakeholder relationships. Then, three research questions are formulated and discussed in the light of two case studies describing the implementation of an innovative contractual solution in Italy (i.e. Business Network Contracts). Finally, based on these findings, a set of more general 'propositions' are stated and included in a provisional conceptual model that schematically depicts an integrated vision of the antecedents and mechanisms influencing SMEs business network structure and competitive strategy.

Findings. The study results pointed out the opportunity to adopt an integrated approach, combining Resource Based View and Stakeholder Causal Scope approaches. The provisional conceptual model proposed illustrates the role of both external and internal resources and relational constructs to shaping network structure and competitive strategy.

Originality/value. The study's contribution is twofold. First, the empirical study shed light on opportunities and limits of two business networks with different backgrounds, approaches and outcomes towards value creation. Second, the conceptual framework proposed advances our understanding and knowledge of the factors and mechanisms influencing SMEs business network structure and competitive strategy.

1 Introduction

Small and Medium Enterprises (SMEs) are the core of European economy, representing the great majority of all enterprises. This is particularly the case in Italy, where 92% of Italian enterprises come under SME definition, they employ almost 15 million workers and generate a total turnover of 2 billion euro (Prometeia, 2017). This is also a peculiar trait of agri-food sector, where SMEs represents almost totality of productive structure (99.9%) and the backbone of its total value (140 billions, Luiss Business School, 2018). Despite these positive data, statistics confirm that dwarfism of productive system is a characteristic of also this sector (Cipolla *et al.*, 2011), especially when it is considered that familiar origin of agricultural firms represent traditionally a common phenomenon. Indeed, factors such as such as (i) the prevalence of a familiar type of business ownership; (ii) some tax-benefit disincentive system; (iii) some natural institutional limits such as enterprise culture or weakness or absence of social capital, limit acquisition and/or fusion strategies which would enable companies' substrate enlargement (Bentivogli *et al.* , 2013). As a consequence of globalization, the need to innovate and commercialize more efficiently led to a new pattern of aggregation, a qualitative-relational growth in contrast with that quantitative-dimensional typical of other capitalisms systems (Tunisini *et al.*, 2013).

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3 SME organizational responses to business challenges have been widely studied in the
4 economic theory by many different points of views. While the Resource-Based View (RBV)
5 emphasized the importance of firm resources at the base of competitive advantage
6 construction, a recent and promising strand of research is focusing on relational governance
7 and Stakeholder Causal Scope (SCS) as a new lens to investigate the role that different
8 constructs might play in aggregation strategies and resulting competitive performances.
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11 However, it is acknowledged that business networks engagement and entrepreneurship
12 development is an “under-researched area, in which valuable descriptions and empirical
13 findings promise important conceptual development” (Leonidou *et al.*, 2018).
14

15 Indeed, various aggregative solutions have been proposed and implemented over time to
16 support SMEs in different industries, and particularly in the agri-food sector - e.g. consortia,
17 temporary joint ventures, marketing boards, interprofessional bodies, etc. Recently an
18 innovative contractual option was introduced in the Italian legislation in 2009 – the Business
19 Network Contract (BNC). BNCs enable entrepreneurs to adopt new organisational solutions to
20 share resources and competences and to organize them more efficiently, hence offering the
21 opportunity increase their competitive capacity. As compared to other legal instruments
22 which favour cooperation among firms, this new contract seems to better respond to both
23 their needs to aggregate and to maintain independency. Further, BNCs may represent a
24 promising solution to exploit the synergies of the numerous and heterogeneous SMEs
25 characterizing the Italian agri-food industry, offering the opportunity to exploit the cultural
26 heritage and gastronomic biodiversity that are the basis for the high reputation of the
27 Mediterranean diet, and particularly of the “Made in Italy”, all over the world (Sotiriadis, 2017;
28 Thrassou, 2016).
29

30
31 In the light of these arguments, the objective of this paper is to identify the main factors
32 influencing agri-food SME participation in business networks and to evaluate the impacts of
33 these factors on network structure and the ensuing competitive strategy.
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36 The study is articulated as follows. First, a critical literature review is conducted concerning
37 the main approaches to firm competitive advantage and the role of stakeholder relationships
38 (section 2.1). Then, based on the theoretical contribution reviewed, three research questions
39 are formulated (section 3). Thirdly, the three research questions are answered with regards
40 to the findings of two case studies describing the implementation of an innovative contractual
41 solution in Italy (i.e. Business Network Contracts, BNCs) (section 5.2). As a fourth step, based
42 on these findings, a set of more general 'propositions' are stated and included in a provisional
43 conceptual model that schematically depicts an integrated vision of the antecedents and
44 mechanisms influencing SMEs business network structure and competitive strategy (section
45 5.3).
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50 **2 Theoretical background**

51 *2.1 Relevant theoretical approaches*

52
53 As described by (Shams, 2018), the role of marketing in delivering value to consumers evolved
54 considerably with years. In post-modern markets the service concept became a central
55 element of value proposition and stakeholders are more and more involved in resource
56 integration and value co-creation (Gummesson 2014). In this context, RBV theory argues that
57 firms' competitive advantage stems from the optimal use of resources and competences
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3 (Barney, 1991). In a developing environment, firms have to sustain this competitive advantage
4 by continuously updating their dynamic competences, to keep their value proposition as
5 “valuable, rare, inimitable and non-substitutable” (VRIN framework). This is especially true for
6 small-sized and familiar enterprises that, due to the limited financial resources, have to rely
7 on human, social and marketing capitals, often embedded in small networks, to attain and
8 sustain their competitive advantage (Bresciani *et al.*, 2013).
9

10
11 Drawing from the RBV, subsequent theoretical approaches pointed out the importance of
12 other concepts and perspectives. Among these, the Dynamic Capabilities theory focused on
13 the “*exceptional conditions*” - such as timing, sequence and location of a service, exclusive
14 reputations and so forth, contributing to the achievement of firm competitive advantage
15 (Shams, 2016).
16

17 Although such theories contribute to clarify the process of value creation through resource
18 integration, they still downplay the role of multiple stakeholders (Hult *et al.*, 2011). Indeed,
19 these marketing approaches seem to fail in addressing appropriately the nature of
20 relationships between the firm and its various stakeholders—especially in terms of the
21 processes and outcomes for the firm and the stakeholders.
22
23

24 However, these aspects are central in the Relational Marketing (RM) approach, according to
25 which mentioned “*exceptional conditions*” would be more profitably recognized in a context
26 of “internal and external stakeholders’ learning processes, market relationships and
27 interactions and the overall organisational experience” (Shams, 2016). In fact, the RM
28 approach emphasizes the situation in which stakeholders’ relationships are devoted not only
29 to delivering customized services, but also to sharing dependencies, risks and uncertainties to
30 adapt with the changes in competitive market powers/drivers (Kurtz, 2009; Donaldson and
31 O’Toole, 2007; Gummesson, 2002).
32
33

34 Further, according to the RM approach, such relational constructs have implications to
35 differentiate an industry market offering (product or service) through a conveyed central idea,
36 relating to the stakeholder relationship value and relevant brand positioning to the target
37 markets.
38
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40 Various authors further developed this approach in the last decade. Quite interestingly Shams
41 (2016) states that “strategic stakeholder relationships could influence the innovation in
42 capacity building through unique and/or customised product/service development processes,
43 based on the knowledge (that is learnt from the relationships and interactions of the
44 associated stakeholders)”.
45

46 The scope within which stakeholders mutually interact in recognizing exceptional conditions
47 to sustain a competitive advantage, is the Stakeholder Causal Scope (SCS). In fact, according
48 to the Business Dictionary (2010a) the SCS is defined as “cause and consequence of
49 stakeholder relationships and interactions under a contract in the completion of a project”.
50 Further, Shams (2011) and Gide and Shams (2011a) underline the relationship between
51 stakeholder relationships and value network, describing the SCS as a “possibility of
52 contributing mutually beneficial value among the key stakeholders or value network”.
53
54

55 A categorisation of the stakeholder that can be possibly involved in such relationships was
56 proposed by Leonidou *et al.* (2018), showing how such engagement can affect innovation
57 management and subsequent entrepreneurship development. Among the fourteen
58 categories of stakeholders identified, the authors point out that research into business
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3 networks engagement is still scarce and that both empirical and conceptual developments in
4 this area should be encouraged.
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6 *2.2 Business Network Contracts: an opportunity for SMEs in the agri-food sector*

7
8 Business Network Contracts (“Contratti di Rete” in Italian) were introduced in the Italian
9 legislation with art.3 comma 4-ter D.L 10th February 2009 n. 5, and then converted in law with
10 L. 9th April 2009, n. 33 (Cafaggi, 2010). According to this legislation a BNC take place when “2
11 or more firms oblige themselves to exercise in common one or more economic activities –
12 within their respective social objectives – with the aim to increase their innovative capacity
13 and competitiveness in the market”. The basic terms of the contract normally cover five
14 aspects:
15

- 16 - a common network program with objectives and expected results;
- 17 - contract duration;
- 18 - a common fund set-up with clearly define rules;
- 19 - a governance body;
- 20 - decision making rules and duties.

21
22 Based on the taxonomies provided in the recent literature (Antonello *et al.*, 2014; Provasi,
23 2012), for the purposes of this study BCNs can be grouped according to the following two
24 classifications.
25

26
27 a) *Simple Network Contacts vs Subject Network Contracts*. With the law n.221 of 17th
28 December 2012 (“Decreto Sviluppo Bis” in Italian) a first formal distinction was introduced
29 between “light” and “complex” networks; the first and original type is defined as network
30 contract and it has the simplest asset, it might have a capital fund or a common body (or both)
31 but it cannot assume legal personality. On the contrary, the “subject network” must assume
32 legal personality, be equipped with capital fund and the governance body (OC) and it has to
33 be registered at the local enterprise register.
34

35
36 b) *‘Horizontal’ vs ‘Vertical’ Networks*. This classification can also be defined as “dimensional”
37 and is based on the productive specialization of the network. The former category is also
38 defined as “competitive cooperation network” (Provasi, 2012) and refers to firms which have
39 the same specialization and/or belong to the same sector. As potentially competitors they
40 may aggregate to put together resources and enlarge their negotiate capacity or
41 products/services offer. Vertical or “symbiotic cooperation” networks are instead made up by
42 firms located at different steps of the supply chain, they enter together in a network to
43 rationalize resources, consolidate production and strategy. This last categorization of
44 networks is particularly fitting for the discussion of two business cases that will be proposed
45 in this work.
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49
50 As soon as BNCs were introduced, they were considered as an interesting opportunity
51 especially for Small and Medium Enterprises (SMEs) (Cafaggi, 2010). Aggregation not only
52 facilitates economies of scales but also it helps to increase the variety and quality of available
53 products in the offer, by including different producers at different steps of value chain. This is
54 the case of those firms which want to aggregate around a brand, expression of a territory
55 and/or traditions that derive from it (Cantele *et al.*, 2015), which therefore develop a strong
56 link with local economy itself. This is an important issue since business network contracts
57 might be often the “contractual platform” through which realize successful synergies among
58 different sectors, with positive effects on real local economy (D'Arienzo, 2013; Villimburgo,
59
60

2018). Indeed, various authors showed how this legislative tool can help SMEs to tackle important challenges, such as food safety (Cafaggi, 2012), innovation (Guarini *et al.*, 2017) and international trade (Cantele *et al.*, 2015).

Recent studies showed that Network contracts have been applied especially in the agri-food sector, gathering various actors along the supply chain (Centro Studi Confagricoltura, 2018; CENSIS, 2012). At the primary production stage, through a shared disciplinary or a more efficient control on production or selection of raw material, the contracts define quality and safety standards that all contractors must observe and respect (D'Arienzo, 2013). In this way it is possible to gather all productive processes under a common control and centralized system, therefore, to trace the product and to offer it on the market in a guaranteed and recognizable way, other than in a uniform manner. Certification process is another common aim in multiple inter-firm contracts, sometimes even a consequence of a cooperation activity. For what concerns the activities of logistics, transformation and related reduction of costs and wastes these are some of the activities more interested by process innovation. With the intent to control and manage effectively the entire supply chain, adherents to networks develop innovative process not only connected with production of new products, but also new transportation and management strategies (Compagnucci *et al.*, 2016).

BNC application to supply chain has been also studied from a transaction cost economics (TCE) approach by Ventura, D'Arienzo and Martino (2017) who highlighted in particular BNC hybrid nature between market and hierarchical setup, which represents the essence of its flexibility. These aspects of simplicity, flexibility and adaptability to entrepreneurs' needs has been studied in particular by Cantele *et al.* (2016) who focused on those particular factors which determine the success of BNC. Such factors include the shared belief that a new way of doing business is needed, the reciprocal trust between firms, the commitment and personality of the entrepreneurs involved, the balance of cooperation and competition in intra-network relationships and the co-evolving perception of network success.

3 Research Questions

As a first step of the investigation, we sought for the factors that are at the basis of stakeholders' interactions and, therefore, influence stakeholders' perceptions within BNCs in the agri-food sector.

Hence, the first research question is formulated as follows:

RQ1: *What are the drivers that influence stakeholder relationships and interactions within Business Network Contracts, in both their setup and implementation?*

Based on the theoretical contributions reviewed, we assume that both BNC resources and relational constructs can contribute to network organisation and competitive strategy.

More precisely, we investigate the role of internal and external resources as determinants of sustained competitive advantage definition (Teece *et al.*, 2008). Distinction between internal and external resources has been widely proposed to explain competitive strategy of firms, especially for competitive advantage built on innovation (Grunert *et al.*, 1997) and different studies exist that uses the same approach for agrifood SMEs (Avermaete *et al.*, 2004; Capitano *et al.*, 2009; De Martino and Magnotti, 2018).

As for the relational constructs, RQ1 considers both:

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3 a) whether and how these constructs can drive stakeholders' interactions and relationships
4 in their organizational responses, i.e. building or joining a network contract;
5
6 b) which of these constructs are more influential in shaping stakeholders' relations before and
7 during BNC implementation.

8
9 Following the definition of relational constructs given by Agariya et Singh (2011), we
10 specifically investigated constructs such as *trust* (Camanzi et al., 2018; Moliner et al., 2007;
11 Blenkhorn and Mackenzie, 1996), *commitment* (Dwyer et al., 1987; Patrick and Vesna, 2010)
12 and *reliability* (Parasuraman et al., 1985; Bennett and Barkensjo, 2005).
13

14 The second research question looks at the effects of the relationships organized through the
15 legislative institute of Business Network Contracts and is stated as follows:
16

17 **RQ2: What are the consequences of stakeholders' relationships and interactions within BNCs,**
18 **in terms of objective, duration, structure and competitive strategy performance?**
19

20 Translating the SCS conceptualization provided by Shams (2015) in this context, the main
21 consequences considered relate to BNC characteristics such as its *objective*, its *stability*
22 (measured in contract duration) and *function* (as described in contract program). Furthermore,
23 the analysis will investigate any causal link between constructs and *structure* (horizontal vs
24 vertical setup) and point out the overall competitive strategy performance of the network.
25

26 The third research question aims at understanding if the BNCs strategy can contribute to the
27 achievement of a sustained comparative advantage for the firms involved in the medium-long
28 run and reads as follows:
29

30 **RQ3: How do the drivers and effects assessed in RQ1 and RQ2 contribute to the creation**
31 **and sustainment of competitive advantage of firms participating in BNCs?**
32

33 As described in the conceptual framework provided by Shams (2016), sustained competitive
34 advantage can be better explained when resource-based approach is integrated with
35 relational view. Since stakeholder engagement and relational ties within networks play a
36 substantial role, but still deserve further analysis (Leonidou et al., 2018; Khodabandehloo,
37 2014), in the following sections two mentioned approaches will be merged in a single
38 framework and applied to stakeholder relationships in business network contracts to identify
39 their competitive strategy.
40
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42

43 **4 Methodology**

44 To discuss the hypothesis above formulated, a case study approach was adopted. In fact, due
45 to the recent spread of the BCN phenomenon, to our best knowledge no comprehensive
46 knowledge base is available that could allow for quantitative elaborations. In addition, the
47 case study approach offered the opportunity to qualitatively, but deeply investigate the
48 conceptual aspects proposed by the latest developments in the economic theory on
49 stakeholder Causal Scope Analysis.
50
51

52 In fact, the survey conducted permitted to address the discussion of the hypothesis in a
53 punctual way. These were defined after having "measured" the extent of this aggregative legal
54 instrument.
55

56 Semi-structured interviews were administered to stakeholders, meaning that an overall path
57 in the conduction of the open questions was set out but, depending on the context, the order
58 in which they were asked could vary. The questionnaire was conducted in person to gather
59
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3 the more detailed answers possible. In one case it took place at one of the productive sites,
4 while in the other one at the office of the Project manager of the network contract. The
5 structure of the questionnaire was articulated so as to analyse the process of creation of
6 network contract, to define the main characteristics of the aggregation and to delineate its
7 possible future evolution.
8
9

10 The preliminary section of the questionnaire included descriptive information about the
11 network, including data of the interviewees, BNC denomination, the region where it is
12 established, the period of validity of the contract and the number of participating enterprises.
13 Further, after a brief description of the project, the general features of the contract, are
14 assessed, i.e. how the project started, which setup was chosen (light network contracts vs
15 heavy network-subjects), governance structure, network typology (vertical vs horizontal) and
16 the object of the contract.
17
18

19 The second section of the questionnaire is about network contracts in general, and various
20 questions were asked trying to understand if and which kind of relations put in connection the
21 contractors before the contract.
22

23 The third section was about the effects of network contracts and its possible future evolution;
24 first two questions concern the expected date of expiration and the main results pursued
25 through the network. A further question concerned the performance of the Network Contract,
26 but it was by purpose left quite general, to overcome respondents' reluctance in sharing
27 economic-financial results. Finally, the last important group of questions was about the limits
28 experienced in implementing the contract and possible suggestions which might have
29 improved the entire instrument.
30
31

32 Case studies have been selected among a large number of existing business network contracts
33 accessing an open-source dataset made available by RetImpresa but built and elaborated by
34 InfoCamere (Infocamere, 2018). This dataset lists all the network contracts registered since
35 2009 (both network contracts and network subjects), with relative enterprises part of the
36 contract and contains denominations, industry classification, registration date, and number
37 of components of more than 4,000 contracts signed, and 22,000 enterprises.
38
39

40 The chosen selection criteria were identified according to the aim of this study and are the
41 following:
42

- 43 a) The study focuses on BCNs in the agri-food sector. Through ATECO 2007 classification
44 available in the original dataset, all networks were filtered in order to obtain only those
45 composed mainly by agricultural enterprises and processors – respectively under codes A1;
46 A2; A3 and C10; C11.
47
- 48 b) Case studies of interest should present peculiar features in terms of both vertical and
49 horizontal structure, such as the presence of contractors along one supply chain (vertical)
50 or distributed through different supply chains (horizontal). This in order to compare
51 different approaches to the network activity and to identify potential and limits of each
52 type.
53
- 54 c) The research conducted should consider network evolution from a lighter setup to a more
55 complex one. Hence, target networks should have a mixed/transitory structure, or which
56 evolved from a lighter form (network contracts) to a heavier one, such as networks-subject.
57

58 A further selection was accomplished among potential cases distributed throughout national
59 territory, considering the following aspects: organizational feasibility of personal interviews;
60

1
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3 the characteristic of a region that had to be interested by regional incentives towards network
4 contracts; the knowledge of the territory, in order to get the contacts of the enterprises more
5 easily.
6

7 Having considered all above listed requirements, Sardinia was the region decided as the
8 territory to which isolate the research. Indeed, this region has a great presence of agri-food
9 enterprises involved in total network contracts (when ATECO codes which represent agri-food
10 supply chain are considered, these are 58.5% of total), it is one of the most representative for
11 regional funds devolved to NCs (thus there is a quite large sample).
12
13

14 15 **5 Results and Discussion**

16 17 *5.1 Case study description*

18 Based on the selection criteria set described above, the analysis was carried out on two case
19 studies: “*Sardo sole*” and “*INSULA - Sardinian Longevity Food*” Network Contracts.
20

21 ***Sardo Sole (SAS)*** is the first inter-firm network contract in the cereal sector, organized around
22 the supply chain of durum wheat entirely produced and processed in Sardinia. It was born in
23 2012 after informal agreement among local producers and other firms of milling sector since
24 2009. The entire project was born around the idea to restructure the supply chain of durum
25 wheat that as a consequence of a crisis of raw material, was disappearing as local producers
26 stopped to cultivate lands and produce grain. In 2015 the contractual form evolved in a
27 network-subject that is the present setup of Sardo Sole. It is composed by three subjects: two
28 producers in form of cooperatives, one craft pasta factory. The actual network is endowed of
29 a common organ composed by a delegate from each contractor, which deliberates with an
30 absolute majority. As a consequence, the agricultural base is still the decision maker with 66%
31 of the company, as it is in the final aim of the entire project.
32
33

34 ***INSULA - Sardinian Longevity Food (SLF)***. In 2017 the Provincial Industrial Consortium of
35 North-East Sardinia (CIPNES) decided to gather some agri-food enterprises to respond to a
36 regional call (funded within the POR-FESR 2014-2020 programme) for the promotion in
37 foreign markets of SME in aggregated form. The idea was to organize a varied offer of
38 traditional agri-food products that recall the longevity of Sardinian population, which has
39 proven to be a confirmed characteristic of this region partially due to its gastronomic heritage
40 (Poulain *et al.*, 2004). The entire project was represented by a unique brand denominated as
41 the network “*Sardinian Longevity Food*”. In the meanwhile, the same CIPNES with other
42 regional bodies (Sardinia Region, Province of Olbia-Tempio and Municipality of Olbia) further
43 developed part of the previous project in a program agreement (*accordo di programma*)
44 building a platform of territorial marketing called “*INSULA*”. This technological multifunctional
45 hub will be situated in Olbia coast and it will be a permanent site for the “promotion and
46 internationalization of identity supply chains of Sardinia with a focus on agri-food, artistic
47 manufacture, nautical sector and design”. The first network contract was composed by 3
48 agricultural enterprises, 13 manufacture and 1 service firm. The supply chains involved are
49 wheat, dairy, horticultural, ichthyic, wine and spirits, craft beers, cured meat, olive oil, sweets
50 and other gastronomic specialties.
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57 *5.2 Findings*

58 The results of the interviews carried out are presented and discussed for each one of the three
59 research questions formulated.
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3 **RQ1: What are the drivers that influence stakeholder relationships and interactions within**
4 **Business Network Contracts, in both their setup and implementation?**
5

6 In line with the assumptions made, both internal and external resources and relational
7 constructs have and influence on network structure and functioning.
8

9 As for internal resources, the small size of firms is one of the initial reasons to aggregate
10 together. The SAS network contract gathered 3 different micro-firms, two wheat producers
11 and one craft factory; in the SLF case, contractors were 27 different small firms.
12

13 In this perspective, among intangible resources, it is important to consider the know-how
14 contributed by BNCs. Again, in the SAS case putting together different phases of the supply
15 chain allowed stakeholders to cover all different phases of value creation until the market,
16 cutting costs and making transactions more efficient.
17

18 In the SLF case, international bundled offer was indeed enlarged and differentiated as a
19 consequence of the different productive realities involved in the network contract by the
20 consortium. In both cases, the passage to a multi brand can also be considered an internal
21 resource developed within the network that enhances brand positioning and makes the entire
22 offer more recognizable and appealing to the market.
23

24 Among external resources, public funding plays a crucial role in SLF case (€ 490.000 of total
25 amount) together with external services and information obtained through CIPNES
26 consortium actions. SAS network did not receive any public aid, indeed through stakeholder
27 aggregation under common governance, it was able to relate more easily not only with local
28 and international clients but also with public bodies such as the Region.
29

30 Reciprocal trust between firms and the commitment and personality of the stakeholders
31 involved are among the most relevant factors for the success of stakeholder relationships, as
32 pointed out by Cantele *et al.* (2016). These factors were found to be at the basis of the case
33 studies considered in this research, even if they reflect two really diverse ways to intend BNC
34 as an aggregative instrument. In fact, the SAS network contract is the evolution of informal
35 connection among enterprises, prior to the aggregative phenomenon. On the other hand, the
36 SLF network was born on a public initiative and as a consequence of public aids received. The
37 different approaches to the network derive from the two distinct objects of the agreements,
38 while the first one is more generally related to value the entire supply chain, the second one
39 is more specifically aimed at internationalizing the firms from a short-term stand point. In this
40 sense, the active role of stakeholders is crucial. In particular, it has been observed how
41 connections among network participants and trust among themselves in pursuing the object
42 of the program, is a fundamental ingredient for the success of networks.
43

44 Another construct which determined differences in the network structure was commitment,
45 as already suggested by various authors (Dwyer *et al.*, 1987; Patrick and Vesna, 2010). In the
46 case of SAS network, stakeholders were driven by a sort of mission then embodied on the
47 brand philosophy as reported by the interviewee:
48

49 *«The network project was initially structured on a vertical aggregation around the supply*
50 *chain and one product: durum wheat. Now we are starting to set a horizontal aggregation*
51 *around the brand philosophy, therefore there is the will to involve other complementary*
52 *products which might share this mission»*
53

54 In the case of SLF, connections among contractors before the network was set-up were really
55 poor. Firms were “selected” by Sardinian Region through a public call. The idea was to
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3 organize a varied offer of traditional agri-food products that recall the longevity of Sardinian
4 population, which has proven to be a confirmed characteristic of this region partially due to
5 its gastronomic heritage (Poulain *et al.*, 2004). The role of the Provincial Industrial Consortium
6 of North-East Sardinia (CIPNES) was fundamental in order to mediate relations among firms
7 than in this case were more competitors than co-operators. In addition, the role of
8 commitment can be considered biased in SLF case, as a consequence of the public financing
9 role in originating the contract.
10
11

12 **RQ2: What are the consequences of stakeholders' relationships and interactions within BNCs,**
13 **in terms of objective, duration, structure and competitive strategy performance?**
14

15 Consequences within SCS have been identified in elements which had to be made explicit by
16 contractors, since often formal pre-requisites for the validity of the contract, such as (i) the
17 objective of the contract, (ii) its duration and (iii) the dimension of the network. A comparison
18 of these elements between the two case studies is provided in Table 1.
19

20 The *object of the contract* (i) is an element strongly related to relationship constructs. In the
21 SAS case the entire project was born around the idea of conveying product quality 100% from
22 Sardinia. For such a structural long-term goal, a high level of commitment and a cooperative
23 behaviour among contractors were necessary constructs to sustain long-term relations. As for
24 SLF, the internationalization of contractors' business has been the central object since the
25 beginning and, as reported by the interviewee:
26
27

28 «*The internationalization call favoured the horizontal aggregation from a multisector*
29 *standpoint. This because a first agreement among firms was pretty difficult, in Sardinia there*
30 *is not collaborative culture*» (Project Manager 2).
31

32 To go over initial diffidence, the agri-food and local marketing division of CIPNES chose to
33 involve enterprises which were interested but through a selection in order to not overlap
34 more subjects from the same product sector: «especially in internationalization context,
35 contractors are very reluctant to share market information or international clients».
36
37

38 As far as the *duration of the contract* is concerned (ii), in SAS case it was intentionally long -
39 until 2050. According to the interviewee:
40

41 «*This derives from our approach to the supply chain that has to be long-term oriented and*
42 *strategic. A minimum duration is required for the price security and to guarantee dignity rules*
43 *for each actor*».
44

45 In fact, the mission of the network was built around the concept of restructuring the supply
46 chain of durum wheat that, as a consequence of a crisis of raw material, prevented local
47 producers to continue cultivate lands and produce grain. This is why a long-term contract was
48 necessary in order to create concrete conditions (price policy) to sustain trust relations among
49 contractors and stabilize production.
50

51 In the SLF case the contract will terminate in 2019, when the project funding the
52 internationalization of Sardinian SMEs will end. This contractual consequence is seen as
53 strongly dependent on the lack of informal interactions and relationships existing among
54 stakeholders prior to the contract establishment, so that cooperation among participants is
55 dependent from incentives of different nature, in this case public financial aids. As a result, in
56 this case short-term beneficial effects prevail on a strategic long-term vision.
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3 Finally, also looking at the *dimension of the network* (iii) it is possible to isolate some aspects
4 that enter in the stakeholders' causal scope. Indeed, SAS vertically aggregated different actors
5 along the supply chain, while SLF is the result of a cooperation among different subjects, from
6 multiple sectors operating in the same industry.
7

8 In the former case (SAS, vertical coordination), the true scope of the aggregation is to "close"
9 the supply chain, in order to maximize the efficiency in the exchanges among contractors and
10 thus increase its entire competitiveness. As a direct consequence, enterprises in aggregated
11 form might accede the national market more efficiently and thus have more resources to
12 organize an international strategy. In the latter case (SLF, horizontal coordination) it is more
13 likely that internationalization program is the actual binding element among contractors, thus
14 more frequently contractors are directly focused on internationalization strategy.
15

16 However, this is linked to the inclusion level of all contractors in the process. Indeed, in the
17 first case even if the entire network decides the definition of the program in the contract (thus
18 the potential marketing strategy), it is clear that only actors at the end of the supply chain are
19 directly involved in the operative plan (enterprises involved in the commercial steps of value
20 chain for example). This aspect might make all the process easier as long as there is trust
21 among all the subjects participating in the network. On the other hand, in the horizontal setup
22 all subjects are directly involved in the process so that a higher level of cooperation is required
23 in this decisional phase of the value chain, which is also "closer" to the market. Because of the
24 sensitivity of this phase indeed, enterprises horizontally connected are more reluctant to
25 cooperate even when involved in the same network. Theory and empirical analyses reveal
26 that in general, enterprises are sceptic in sharing information on clients or distributors,
27 business consultants, and so on.
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32

33 [Insert Table 1 approximately here]

34 **RQ3: How do the drivers and effects assessed in RQ1 and RQ2 contribute to the creation**
35 **and sustainment of competitive advantage of firms participating in BNCs?**
36

37 With reference to the *exceptional conditions* mentioned in the theoretical background section,
38 interactions between cause and consequences within stakeholder causal scope are at the
39 fundamentals of the competitive advantage. In the observed case studies relationship
40 constructs and formal elements of the contracts determine added value contributed by the
41 network contract, then its potential contribution to the competitive advantage of the firm
42 contractors.
43
44

45 The contractual form of SAS network contract was chosen for its slenderness and the
46 possibility for single contractors to maintain an independent identity. Thanks to higher
47 economies of scale, a larger supply base and direct agreements with processors, higher prices
48 could be paid to producers. In general, the mechanism was the same: a minimum guaranteed
49 price for durum wheat with precise characteristics (level of proteins depending on type and
50 its final use) that could change depending on variations of general market price and quality of
51 the product harvested. At this step however, there was no cohesion in how products arrived
52 at the market and production and processing stages are highly fragmented, allowing only for
53 a "multibranding" strategy.
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56 The necessity to overcome this fragmentation on the market and to gain distinctiveness in
57 front of consumers led the network contract to create a unique brand called "Sardo Sole" in
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3 2013. As a direct consequence, the network needed at that moment a cohesive governance
4 instrument able to define a univocal strategy to valorise the product on the market.
5

6 Then, in 2015 the network contract evolved in the network-subject with just 3 contractors, 2
7 producers and 1 processor. The network-subject cooperates with other small local producers
8 but through simpler contracts as subcontractors. Legal personality and a common organ allow
9 to communicate easily with retail subjects, such as main large retail sectors. Moreover, having
10 defined the basis of the single brand, the management is trying to differentiate even more by
11 looking at other complementary products made in Sardinia, which derive from productions
12 close to wheat one, such as legume and other horticultural outcomes.
13
14

15 Quite interestingly, business internationalization was not the original object of the network,
16 as reported by the interviewee:
17

18 *«The first real object was the product and to create a unique recognizable brand, later Sardo
19 Sole valorized know how of some actors along the supply chain to accede to some other
20 markets».*
21

22 At the moment the network-subject exports its products in niche markets, especially high-end
23 restaurants, some in central Europe and in Australia. These are “quality-markets” destinations,
24 where prices of high-quality products allow to exceed traditional barriers to exports: expenses
25 for certification, shipping, effective communication campaign and others.
26

27 High potentialities of network in this sense are recognized by management that however is
28 critic in front of the uses of Public funds to finance activities of communication at international
29 events:
30

31 *«The regional authority approach is ineffective from the SME’s standpoint. Public funds are
32 used to support the presence of productive realities at international fairs. However, economic
33 resources should be aimed at creating competences to approach and penetrate the market, to
34 deal with logistic costs and those related with building a foreign communicative campaign».*
35
36

37 Actually, the SAS network never received any public aid:
38

39 *«Initially, network contracts were not admitted to some generic call for financing, we asked to
40 several Institutions to admit them and sometimes they were never admitted.*
41

42 The only way to reach a critic mass able to make these campaigns accessible to SME’s might
43 be to open the network to numerous subjects. In this way however, there would be enormous
44 problems in ensuring a homogeneous high quality of products, according to the interviewee.
45 The strategic direction chosen by SAS is instead to continue to make network looking over
46 region realities, in order to find right partners to deliver quality:
47

48 *«Future projects regard to build networks of network (reti di rete), with some other network-
49 subjects from south Italy, Apulia in particular. The idea is to extend the product offer without
50 renounce to quality and authenticity».*
51

52 In the case of SLF network, only few enterprises already started to export, as reported by the
53 interviewee:
54

55 *«The main limit for them were different necessary certifications to get the markets alone.
56 Some of them get the ISO certificate, but the larger part missed the FDA one for UK, for
57 example».*
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3 A major constraint is given by the scarce resources available for each participant in the
4 network and their limited role in the internationalization process, that is coordinated by
5 CIPNES.
6

7 SMEs in the network already took part to several fairs such as *TuttoFood 2017* in Milan, *Cibus*
8 *2018* in Parma, *SIAL* in Paris. Then future fairs are in program in Colonia (*Anuga*), New York
9 (*Fancy Food*), Dubai (*Speciality Food*) and San Francisco (*Winter Festival*). Network is still in
10 activity at this moment of the analysis, thus is not possible to draw conclusions about the
11 effectiveness of this project. According to the project manager, SMEs have benefited from
12 these activities:
13

14
15 «We had some buyers interested in some products and we put them in contact with the single
16 producer. Nonetheless the added value of this first aggregation is in its evolution in a
17 permanent territorial marketing platform».
18

19 Indeed, in the opinion of the interviewee, SMEs decided to enter in the network also because
20 there was the perspective to have a permanent platform as a showcase for their products.
21 INSULA – Sardinia Longevity Food was born as a consequence of the merge of this network
22 contract with another project financed by European Union and Sardinia Region, a European
23 Technological Platforms (ETP) denominated “INSULA-Sardinia Enterprise P.T.E.”. CIPNES is the
24 implementing body of this agreement among Sardinia Region, Olbia-Tempio Province and
25 Olbia Municipality, which is coordinating the construction of this physic structure on 100.000
26 squared meters on Olbia - Golfo Aranci coast. The idea is to build a multifunctional hub on two
27 levels. The first level will host thematic-productive areas where the eleven supply chains
28 object of the previous network contract will be shown and represented. Each “productive
29 world” will be located in a divided area and told through a “taste workshop” and a showroom
30 area. In addition, the platform will host a “food section” area, dedicated to the processing and
31 the gastronomic offer of this product supply chains through the so-called *taste islands*. The
32 second level will be an innovation incubator and it will host an internationalization spot to
33 assist enterprises which wants to internationalize their businesses, labs for quality
34 certification, a digital platform for territorial marketing and an incubator/accelerator of
35 startups. The entire communicative system is extended to strategic spots all around the local
36 territory, through a network of promotional units denominated *Sardinia Village*. These units
37 will be located in «known touristic places and strategic access hub such as ports and airports».
38
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43 *5.3 Discussion, propositions and conceptualisation*

44

45 In this section, the empirical findings of the case studies analysed in section 5.1 and 5.2 are
46 discussed in the light of the critical literature review conducted and considered under a
47 broader perspective. As a result, we postulate a set of general propositions concerning the
48 interlinks between resources, relational constructs, network structure, its organisation and
49 ultimately its competitive strategy. Such propositions are then integrated into a provisional
50 conceptual framework which generalizes and schematizes the answers to the research
51 questions formulated in section 3.
52

53
54 RQ1 assesses the drivers influencing stakeholder relationships and interactions within
55 Business Network Contracts. The theoretical contributions reviewed emphasize the
56 importance of different categories of drivers (RBV, Dynamic capabilities theory, Relational
57 Marketing, Stakeholder Causal Scope). However, the main factors considered can be grouped
58 into two broad categories: resources (both internal and external to the network itself) and
59 relational constructs (the “causes” within the SCS indicated by Shams, 2012).
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3 Drawing from RBV, we further investigated the assumption that both internal and external
4 resources of the firms aggregated contribute to (i) shaping network composition and
5 performances and to (ii) defining network competitive strategy. The empirical evidence
6 gathered supports these assumptions and further specify them.
7
8

9 As for internal resources, both case studies highlighted the constraints deriving from the small
10 size of firms within the network in terms of know-how, financial resources, and
11 entrepreneurial characteristics. Hence, network participation offers opportunities to improve
12 transactions efficiency. Among external resources, we found that the interactions with public
13 bodies (especially access to public funding) and other marketing actors (e.g. external services,
14 market intelligence) influence substantially the network structure and competitive strategy.
15
16

17 In the light of these considerations, we postulate the first proposition as follows:
18
19

20 **P1: Internal and external network resources contribute to shaping SME network structure**
21 **and competitive strategy. Key internal resources include entrepreneurship, finance, know-**
22 **how (P1a). Key external resources include external services, market intelligence and public**
23 **funding (P1b).**
24

25 Drawing from dynamic capabilities theory and relational marketing, we further focused on the
26 relational constructs that influence network structure, thus contributing to shaping its
27 competitive strategy.
28

29 The critical literature review conducted showed that such constructs are fundamental bases
30 for the functioning of the network, since they facilitate transactions within internal and
31 external resources of the network (Gellynck *et al.*, 2007; Giacomarra *et al.*, 2019; Kühne *et al.*,
32 2013) without which the network experience risks being temporary and ineffective (Cantele
33 *et al.*, 2016; Ventura *et al.*, 2017).
34
35

36 Such theoretical contributions highlighted the importance of reciprocal trust between firms,
37 commitment, communication and reliability of the stakeholders involved for the success of
38 their relationships. Indeed, these are also the most relevant factors that emerged from the in-
39 depth interviews conducted, even if the two business networks show different approaches,
40 i.e. while the first one is more generally related to value the entire supply chain and a long-
41 term view, the second one is more specifically aimed at internationalizing the firms from a
42 short-term perspective.
43
44

45 In the light of these considerations, we postulate the second proposition as follows:
46
47

48 **P2: Relational constructs among stakeholders are causes within network SCS and exert a**
49 **positive influence on SME network structure and competitive strategy. Key relational**
50 **constructs are trust, commitment communication and reliability among stakeholders.**
51

52 RQ2 assesses the consequences of stakeholders' relationships and interactions, following a
53 SCS approach. Indeed, various authors agree that relationship-based approaches are
54 particularly appropriate to analyse thoroughly long-term collaborations (Payne *et al.*, 2005;
55 Shams, 2015). Hence we assessed the implications that relational constructs may have on
56 business networks formal aspects, that were described as consequences in section 2.1 (Shams
57 *et al.*, 2017)
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3 In the case studies analysed, consequences are directly observed on formal elements of
4 business network contract: object, duration and dimension of contracts. Thus, given
5 environmental and relational pre-conditions, different versions of BNCs are observed, e.g.
6 mission-driven organizational innovation observed in first case needs long-term relationships
7 to build a “*new, ethic supply chain*”.

8
9
10 In the light of these considerations, we postulate the third proposition as follows:

11
12 **P3: Formal aspects of business networks are consequences within network SCS, as they are**
13 **influenced positively by relational constructs (P3a), and influence network competitive**
14 **strategy (P3b).**

15
16
17 Finally, RQ3 assesses the contribute of both drivers and effects considered in the other two
18 research questions to the creation and sustainment of business network competitive
19 advantage.

20
21 The RBV and its further developments offer a valuable starting point to explain how the link
22 between resources and competences can determine competitive advantage of firms (Barney
23 1991). Nevertheless, in the light of the critical literature review conducted, as well as of case
24 studies analysed, we suggest the idea that stakeholder-relationship approach offers a
25 complementary contribution in explaining sharpening of network competitive advantage.
26 Indeed, even if original resource-based approach considers already human capital resources
27 among those fundamentals to successfully deliver value, such as culture and values internal
28 to the organizations, relational marketing view seems more appropriate “to recognise such
29 exceptional conditions, which could underpin the VRIN competency through the internal and
30 external stakeholders’ learning processes, market relationships and interactions and the
31 overall organisational experience” (Shams, 2016). Indeed, RBV has been already integrated
32 with other approaches for study of Italian agri-food business (Giacomarra *et al.* 2019) and is
33 well-suited for integration with SCS.

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38 Therefore, the network competitive strategy could be determined by both (i) the set of
39 heterogeneous internal and external resources and competences and (ii) by stakeholder
40 causal scope among network participants.

41
42
43 The empirical evidence gathered in this study confirms the importance of both groups of
44 factors. However, in most cases, business networks structure and competitive advantage will
45 be mostly influenced by a sub-set of factors.

46
47 More precisely, the analysis of the SAS case study permitted to understand that since its
48 network was born as a consequence of (i) informal relations based on trust among contractors
49 and (ii) high level of shared commitment guided by convincement in network contract, the
50 mission of the contract could rely on an original long-term program (around which contractors
51 decide to join or not the contract), longer duration and defined governance and vertical
52 integration. In this sense it can be stated that NC is actually used to efficiently aggregate agri-
53 food SMEs to make them more competitive.

54
55
56 At the same time, the SLF case study analysis showed that its network was instead founded
57 on the availability of regional public funds for a 3-year program to internationalize SMEs,
58 enterprises aggregated around the possibility to share these resources and consequently this
59 NC is more short-term oriented. Although it can be stated it is in line with its
60

internationalization purpose, this NC is only partially coherent with the actual final aim of NC policy, which is to favour long-term cooperation among SMEs to overcome their dwarfism.

In the light of these considerations, we postulate the third proposition as follows:

P4. Both network resources and stakeholder causal scope contribute to shaping network composition (P4a) and competitive strategy (P4b).

This latter proposition actually brings together the previous three ones and suggests the opportunity of an integrated approach, combining various theories, for the assessment of business network competitive strategy. The proposed approach can be schematized in the conceptual framework outlined in Figure 1.

[Insert Figure 1 approximately here]

6 Conclusions and further research

The study explored the interpretative capacity of the conceptual aspects proposed by recent theoretical approaches, namely Resource Based View and Stakeholder Causal Scope, to investigate the drivers and effects of aggregative strategies of agri-food SMEs.

The theoretical contributions reviewed and the empirical insights gathered pointed out the opportunity to adopt an integrated approach, combining RBV and SCS constructs to better understand the role of different drivers and effects of business network participation.

In fact, both network resources and relational constructs were found to play a relevant role in shaping network structure and competitive strategy. On the one hand, the key internal resources include finance, know-how and entrepreneur characteristics, while the key external resources include public funding, external services and information. On the other hand, reciprocal trust between firms and the commitment and personality of the stakeholders involved, communication and reliability are among the most relevant relational constructs. The main consequences of these factors can be observed on the formal elements of the relationship, namely the objective, duration and the dimension of the network.

Thus, given existing resource endowments and relational pre-conditions, various types of networks with different competitive strategies and performances can be observed. Moreover, in most cases, business networks structure and competitive advantage will be influenced primarily by a sub-set of factors.

Considering the two case studies analysed, we could argue that the SAS network structure is largely shaped by SCS constructs. Indeed, network unity and long-term view relies on the solid relationships binding contractors. As a consequence, competitive strategy is primarily based on a brand able to communicate such a *mission* and on maintaining good relationships with suppliers who are members of the network contract. As for the SLF network, it seems more oriented towards a *resource-based* competitive strategy; both public financing from the region and objective mediator role of consortium seem crucial aspects of the network without which its staying power becomes questionable.

The study's contribution is estimated to be twofold. First, the empirical study shed light on opportunities and limits of two business networks with different backgrounds, approaches and outcomes towards value creation. Second, the conceptual framework proposed advances

our understanding and knowledge of the factors and mechanisms influencing SMEs business network structure and competitive strategy. The combination of empirical findings and theoretical conceptualization supports the appropriateness and the usefulness of the provisional model proposed, drawing from two theoretical approaches. Highlighting the factors that contribute most effectively to business network performance, along with the strengths and weaknesses of the two different case studies analysed, the proposed model provides a useful guidance for strategic orientation and decision-making. Overall, the study highlights the opportunity for various stakeholders to consider innovative and synergistic opportunities for collaboration within business networks, to tackle upcoming marketing challenges. Finally, the study offers insights and suggestions also to policy makers, concerning the potential exploitation of business networks to support the development of SMEs but also of local communities and the valorisation of territorial cultural heritage and gastronomic biodiversity.

The main limitations of the study lie in its exploratory nature and in the limited empirical evidence available. Future research should expand the scope of the present analysis by means of both qualitative and quantitative methods. Qualitative approaches could be used to carry out a comparison of a larger number of case studies that would add to the understanding of the empirical phenomena related to business networks in different geographical contexts, i.e. at regional/national/international level. Indeed, the collection of in-depth interviews in a large number of networks comprising many actors would facilitate broadening and generalization of the results. Taking the proposed conceptualization as a reference, quantitative approaches would allow to empirically test and estimate the intensity of the causal relationships postulated in the conceptual model proposed. The relationships among variables (both observable and unobservable ones) could be assessed by means of appropriate multivariate analysis (e.g. Structural Equation Modelling).

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Tables and figures

Table 1 - Comparison between network contract features in selected case studies

	Sardo Sole (SAS)	Sardinian Longevity Food (SLF)
Network dimension	Vertical	Horizontal
Number of components	3	17
Specialization	Cereal & derived products	Multisector
Object of the contract	Development of high-quality products 100% made in Sardinia	Internationalization of contractors' businesses
Financing	Private	Private and public
Changes in contractual form	Yes	Yes
Contract duration	2050	2019

Figure 1 - Provisional conceptual model

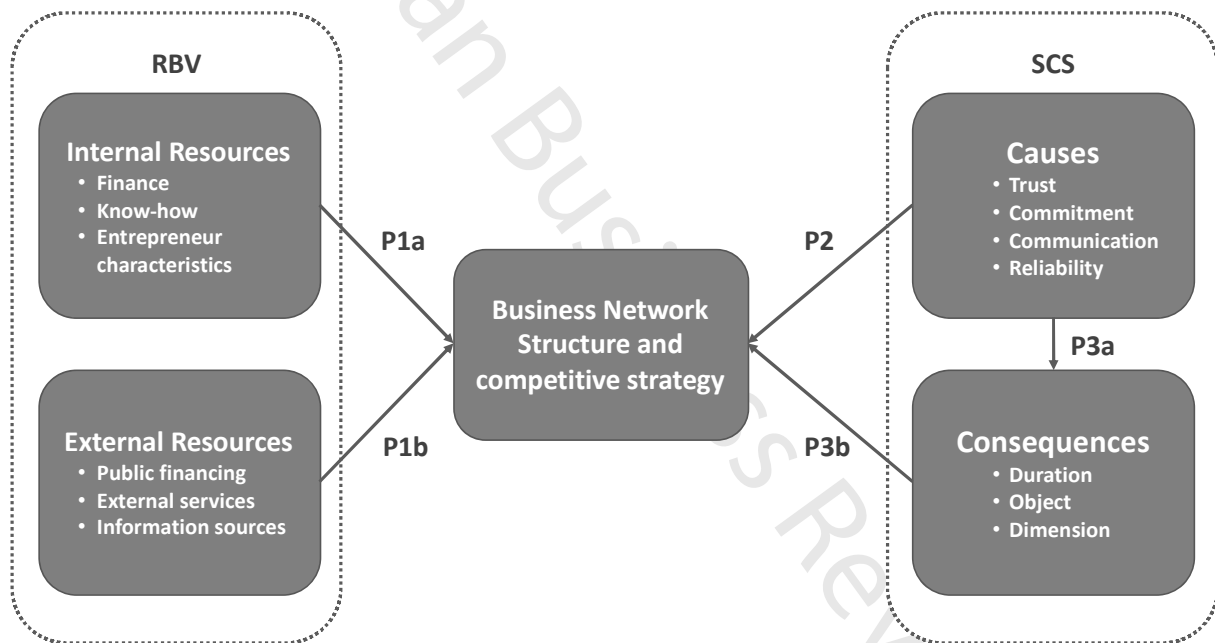


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