

# ENHANCING EFFICIENCY AND INCLUSIVENESS OF AGRI-FOOD CHAINS IN EASTERN EUROPE AND CENTRAL ASIA

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# FOREWORD

Food and agricultural systems are changing in unprecedented ways. These changes are driven by, inter alia, increases in incomes, changing technologies, globalization, retailer demand for higher volumes of consistent and reliable products, changing demographics, including increased urbanization and the growing number of women in the workforce. Demand for high-value commodities, processed products and ready-prepared foods is increasing, along with consumer concerns about food safety and quality, and with sustainability issues.

The prospects for continued growth, and change in demand for agricultural products and value-added foods, require increased attention to agro-industrial and agri-food chain development within the context of economic growth, food security and poverty eradication strategies. While offering opportunities for income enhancement, employment generation and market access, modernizing agro-industries and agri-food chains in developing countries also poses risks in terms of equity, sustainability and inclusiveness, particularly for smaller-scale farmers and agro-enterprises. Where there is unbalanced market power, value addition and capture along the chains may become concentrated in one or a few participants, to the detriment of the others. This may reduce the socio-economic benefits of development efforts. This underscores the need for policies and strategies that, while promoting the desirable development outcomes, take into account issues of efficiency, equity, sustainability and inclusiveness.<sup>11</sup>

The efficiency and inclusiveness of food systems is also closely linked with the levels of food losses and waste. For decades, the main focus of efforts to reduce food losses and waste was to improve postharvest operations. Only recently has it been recognized that reduction of food losses requires interventions to improve supply-utilization alignment and efficiency along the whole food supply chain. Food losses and waste have gained global attention in recent years, and have been identified as a key area for support by FAO's regional conferences for the Near East, Asia-Pacific and Europe and Central Asia. While modern, aligned supply chains generally do have much lower losses, there is still excessive food waste, particularly at the retail and consumption stages. Conversely, actions that reduce food loss and waste will increase chain efficiency, while enhancing the inclusiveness and reducing pressure on natural resources.

Public and private sectors have share the responsibility to ensure inclusive and efficient food and agricultural systems, including by minimizing outbreaks of diseases and pests, which can lead to reduced productivity and losses, and result in adverse effects on human, animal and plant health. The private sector is, increasingly, playing an important role in shaping policies, as well as trade and market structures through value chain development. Food and agricultural companies at all levels are being driven by changing competitive pressures to introduce business practices and technologies to align supply systems and drive down costs. Increasingly stringent procurement requirements and the associated proliferation of private and other voluntary standards, particularly in food safety and quality, animal health, are helping to improve efficiency, but are also creating avoidable barriers to market entry. Despite growing recognition by agri-food and forestry companies that mainstreaming of responsible practices is becoming a

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<sup>11</sup> Inclusive food and agriculture systems are those that enable commercial small- and medium-scale production and processing enterprises, including farmers, to sustainably participate in markets. It also involves developing agri-food chain stakeholder capacities for improved rural-urban linkages.

competitiveness factor, few companies have yet succeeded in identifying and scaling inclusive and efficient business models.

Food and agricultural systems must improve inclusiveness by linking smallholder farmers and their organizations with agribusiness enterprises and supply chains for them to effectively and sustainably participate in rapidly changing global, regional and national markets. Within this context, governments and other stakeholders are required to make increasingly complex strategic choices in strengthening food and agricultural systems, governing changes in agrarian structures, improving production and post-production activities, institutional mechanisms, the delivery of services, market access, environment, as well as relevant technologies.

In most of the countries of Eastern Europe and Central Asia small-scale farmers and households are effectively excluded from direct participation in markets. In general, they face pressures from larger processors and retail chains to supply raw materials in required quantities and quality. These demands often pose a great challenge for integration into value chains. At the same time, local, often small and medium-sized processors, challenged by global and regional competition and the need to comply with international regulations, are also experiencing difficulties in establishing their position in the supply of multinational retail chains.

To address aforementioned and other issues pertinent to agri-food chain development in the region, this workshop brought together scholars and practitioners, as well as other stakeholders to discuss and exchange the views on the regional perspectives of efficient, equitable, sustainable and inclusive agri-food chains development.

The goal was to offer a platform whereby regional experiences in agri-food chains development can be discussed, lessons can be learned and recommendations can be made to improve the effectiveness of agri-food sector promotion initiatives by governments and development organizations. Areas and topics of special interest for discussion included:

- Value chain coordination and agri-food sector competitiveness
- Business models for improved inclusion of small family farms in value chains
- Public-private partnership and inclusiveness of agri-food chains
- Reduction of food losses and waste for improved agri-food chain efficiency
- Enabling environment and agro-industrial strategies development

The papers as they were prepared by the authors, present not only the factual situation about the presented topics, but can also serve as an indicator on the availability of relevant information, as well as the state of conceptual knowledge about the complexity of issues related to inclusive and efficient agri-food chains.

# MANAGING GROWTH IN HIGHER VALUE FOOD CHAINS

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## Abstract

Higher value food chains tend to converge either towards rather narrow market segments and niches or towards conventionalization and loss in added value when volumes and turnover start growing more significantly. In this contribution, we examine growth and management in organic food chains. We argue that consistency in business logic and goals, development strategies and management instruments used, and the related adjustments during the growth process, can very effectively contribute to sustainable development of agri-food chains and make them more competitive, resource-efficient, equitable and inclusive. The analysis and discussion are based on the findings from a set of case studies of growth in agri-food chains implemented during 2014. This paper focuses on organic food chains in Eastern Europe and Turkey. In each case study, we scrutinize the business logic in place, the development strategies pursued and the specific management instruments used. Key questions asked concern: the overall consistency of the business logic; the adjustments needed during growth; the continuous challenge of an effective coordination with consumer and retailer demands; and the contribution of business logic and management to economic performance and efficiency. In the concluding section, we present key findings from the case studies with illustrative examples and the lessons learned.

Keywords: food chain, growth, business logic, management, value-added, performance, economic, efficiency, Slovenia, Turkey, Lithuania

## Introduction

Experience shows that businesses and initiatives face specific challenges when they are expanding, and when volumes and turnover start growing more significantly (Stevenson et al. 2011). The related adjustments, especially in higher value food chains, mean that businesses and initiatives tend to converge either towards rather narrow market seg-

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ments and niches or towards conventionalization and loss in added value (Kirschenmann et al. 2008). In this paper, we ask how to manage growth in higher value food chains.

The question is particularly important for the organic sector, as non-economic motivations continue to be rather important in this sector (Padel et al. 2010). Many entrepreneurs in the organic food sector do not possess formal training in business economics and/or management. However, especially as businesses become bigger, more and more economics and management competences are required, and this increasingly becomes a constraint (van der Merwe 2002).

In this contribution, we emphasize that consistency in business logic and goals, development strategies and management instruments use can very effectively contribute to a sustainable development of agri-food chains and make them more competitive, resource-efficient, equitable and inclusive. In this respect, and in relation to growth, we also argue that entrepreneurs need to adjust their strategies and use of management instruments during the growth process in order to maintain sound business logic. And, conversely, without adjustments at the right time, or in simpler words, if growth is not managed well, this can lead to complete failure of individual businesses and entire chains.

## Theoretical background, approach used and empirical basis

Case studies of growth in agri-food chains implemented during 2014 across Europe provide the basis for the analysis (CORE Organic II, 2015). In this paper, the focus is on cases from Eastern Europe and Turkey. In each case study we examine the

- Management of the food chain in terms of the business logic in place;
- Development strategies pursued;
- Specific management instruments used.

The case studies are central to the Core Organic II project ‘Healthy growth: from niche to volume with integrity and trust’. The particular cases selected for this paper are from Lithuania, Slovenia and Turkey. The main methods used were semi-structured interviews based on a common interview guideline as well as desk studies. The interviews, annual reports, business data and reports, and the data available on the internet form the basis of the analysis.

All cases are mid-scale in their respective countries and experienced a period of substantial growth in terms of volumes and turnover. The cases range from (family) businesses to producers and/or cooperatives of different sizes and levels of professionalization and management (Table 1). Some of the initiatives studied have developed into sizable retail and food businesses that aim to integrate the complete value chain from primary production to sales to end users. The cases differ in many respects, providing a diverse picture of mid-scale organic value chains in very different contexts.

**TABLE 1:** SOME BASIC DATA ON THE CASES PRESENTED

Case	Country	Number of farms involved	Number of employees	Turnover (€ p.a.)
Eko Žematija organic dairy	Lithuania	47	17	2 million
Ekodar organic beef	Slovenia	76	n.a.	65 000
Planika dairy	Slovenia	120-130	52	8.7 million
Sunder organic dry herbs	Turkey	11	20	1.8 million

Source: Own compilation based on case study reports

## **The concept of 'business logic'**

The business logic connects goals (economic and other), development strategy and the use of particular management instruments. It represents a framework that comprises internal processes and all areas of responsibility; i.e. strategic planning, governance and organization, personal management and controlling. The business logic also provides a framework for the integration of the business, initiative or entire chain in terms of harmonizing the management of individual chain partners with the key values and orientations of 'the whole'. In addition, it facilitates local level 'embedding', which is the integration with other regional actors, activities, interests and wider regional and societal goals (Knickel, 2001).

Our basic assumption is that there needs to be consistency and coherence in business logic and business goals, development strategies and the use of particular management instruments; and that this coherence is a critical precondition for a sustainable development of agri-food businesses, initiatives and entire chains. A closely related second assumption is that the establishment and safeguarding of the overarching business logic makes businesses, initiatives and entire chains more competitive, resource-efficient, equitable and inclusive.

## **Key questions and hypotheses**

The key questions asked in this paper concern the overall consistency of the business logic and adjustments needed during growth; the continuous challenge of an effective coordination with consumer and retailer demands; and the contribution of business logic and management to economic performance and efficiency.

The two main hypotheses that we will test are:

A consistent logic, operationalized by suitable strategies and instruments is a key feature of businesses, initiatives and chains that manage growth successfully.

Business strategies and instruments can (need to) change over time depending on the development phase of the business, initiative or chain and the related challenges.

In some of the case studies, we will examine more closely the question of business models for an improved inclusion of smaller farms and smaller food businesses in value chains.

# **Discussion: development pathways with their particular challenges, management strategies and instruments**

## **Characterization of development pathways**

The Five-Phase-Model used to analyse the development of enterprises (Rüggeberg 2003, Zacharias 2001) distinguishes growth rates in terms of turnover and characterizes them in respect of profit, investment levels and degree of differentiation and management professionalization realised. The development of profit is a key characteristic for the Phase A and the beginning of Phase B. In Phases B to E, the profit curve might increase further but tends to be more volatile over time. We assume that

The length of the different phases depends on the particular case, its internal features and its context;

Changes to the management of businesses, initiatives and chains tend to be driven by external factors like the global financial crisis, food scandals, internal disputes, the development of competitors and markets or changes in supply and adjustment or problem solving strategies differ significantly between cases;

Cooperatives and family businesses tend to follow a similar development pattern with typical phenomena within their group; challenges and adjustment strategies and mechanisms tend to be similar; even non-profit food initiatives fit into the model.

Table 2 provides an overview and generalized characterization of development phases. Phase F is not necessarily encountered by all businesses and chains, and it might come only after a longer period of relative continuity.

**TABLE 2: OVERVIEW AND GENERALIZED CHARACTERIZATION OF DEVELOPMENT PHASES**

<b>A Foundation</b>	<b>B Early development</b>	<b>C Growth phase I</b>	<b>D Growth phase II</b>	<b>E Consolidation</b>	<b>F Renewal or decline</b>
Formation of founders group; start of economic activity; investments; start of production	Running costs often not yet covered; early placement of products on the market; marketing concept implemented	Rapid growth; financial consolidation; enlargement of customer base; training of management team and staff; strategic planning for next growth phase	Rapid growth; differentiation in markets often connected with more products and customers; regional extension; improved quality because of controlling; more emphasis on strategic orientation; business branches sometimes uneven in efficiency	Strengthening of business; balancing and fine-tuning of all branches; increasing emphasis on strategy for further development; emphasis on efficient processes with good cooperation along chain	Declining turnover or other signs of regression. Possible adjustments include outsourcing of branches, joint ventures, investments in new facilities or a new brand, a new regional orientation, the foundation of new branches or, as a worst case scenario, continued decline, bankruptcy and abandonment

Source: Own compilation

The vision and basic business ideas and goals of the leader or leading team tend to drive strategic development of the business or initiative at least in the initial phases. The strategy in turn needs to be ‘translated’ into the formulation and implementation of a management plan. A business strategy is central to the development of a business, initiative or chain (Table 3). It needs to take resources as well as the internal and external business environment into account. The strategic planning starts with the definition of long-term goals and defines particular courses of action as well as the allocation of resources necessary for carrying out these actions. Sometimes a combination of different strategies is used to achieve goals. The formulation of the strategy involves analysing the product, its customer base, the location of the business with competitors, the available skills and resources, opportunities and risks, the potential to grow, etc.



**TABLE 3: TYPICAL CHALLENGES AND THE RELATED STRATEGY DEVELOPMENT**

Phase	Typical challenges	Key issues in management strategies
Foundation	Often unforeseen challenges related to regulations and finance in particular. Need to be flexible and able to take quick decisions; risk taking; need to achieve early customer orientation	Choice of most appropriate legal form; determining form of leadership (e.g. single person vs. team); managing early risks
Early development	Limited start-up budget and investment capital; liquidity problems during early development	Early strategic decisions regarding production, quality and marketing; elaborating a finance strategy that takes private assets, public funding and possibilities of alternative financing into account; transitioning towards growth strategy
Growth Phase I	Drowning in daily business while critical reflections remain important; maintaining openness for adjustments; continuous improvement of controlling schemes; customer orientation; learning by doing; remaining innovative	Implementation of a quality assurance strategy; enhancement of marketing strategies; consideration of appropriate level and type of differentiation; managing growth; elaboration of strategy for further development
Growth Phase II	Know-how related to strategic planning and management; finding appropriate mechanisms for sharing responsibilities between levels and persons after strong growth; continuing challenge of appropriate placement of products and brands; avoiding a loss of added value(s) and product properties; managing increasing staff numbers	Continuous professionalization and capacity building in management; management coaching; implementation of more advanced differentiation strategies; e.g. quality differentiation, sustainability strategies, fostering integration along supply chain and local circuits; implementing appropriate training schemes for (new) employees
Consolidation	Establishing and maintaining financial buffers; managing (new) risks and challenges related to changes in external environment e.g. markets; maintaining 'inclusion'; maintaining sufficient flexibility and adaptive capacity	Strategy to increase efficiency; continuous improvement of management structures and processes; innovation strategy; risk management strategy; maintaining an ability to learn, ensuring efficient problem solving capacities; on-going strategic planning for improvements
Renewal or decline	Access to finances for new investment; ability for radical changes; maintaining a 'thinking outside the box' attitude and the ability to rethink differentiation strategies, overarching goals, etc.	Maintaining effective controlling and early warning systems; recognizing new challenges, risks and new opportunities early enough; having a crisis management strategy in place and applying it when needed; enhancing the resilience of the business, initiative or chain

Source: Own compilation

### Typical management strategies by development phases

In Phase A, management strategies focus on the formal and organizational start-up of the business, initiative or chain. Focus in Phase B is on effectively covering the expenses incurred and planning strategically the next steps of development and expansion. Market or product differentiation strategies tend to play a central role in Phase C when competitiveness of the young business and its position on the market become more important. The related strategies depend on the profile of the particular business, initiative or chain with resource availabilities, and its strengths and weaknesses. Focus then tends to be on the individual strategy, for example aiming at the realization of a sustainable business concept or the implementation of an encompassing marketing or communication strategy. The business or initiative might also have a clear orientation towards strategic cooperation with food chain partners (Knickel et al., 2008; v. Münchhausen & Knickel, 2014). Quality assurance and risk management tend to be central

concerns in Phase D as both contribute significantly to consolidation. Efficiency and/or innovation strategies often become more important in this phase. Times of stress or crisis can in principle challenge the business or initiative in all development phases and cause a decline, a new orientation or a radical change. Almost all businesses and initiatives who overcame major crises had specific problem solving strategies in place and/or decided to pursue a more significant transition.

## Discussion of and overview table on management instruments

Business management covers all internal structures and processes. An overarching goal, and task, for management is to realize an economically sustainable long-term development of the business or initiative. To break this overarching goal down into more specific management goals and management strategies helps to select the most suitable management instruments. The related management areas are 'strategic planning', 'governance or leading', 'organization', 'personal management' and 'controlling'. The diverse functions that can be related to these five management areas represent a complex system of interdependencies that has to respond efficiently to constantly changing framework conditions (Schauf 2009).

Each management area disposes of a variety of management instruments (Table 4). The instruments used are to enable the realization of the strategic goals of the business or initiative. The delineation between strategy and instrument in literature is often blurry. There is a tendency to describe management processes in terms of both, strategy and instrument, and there is considerable overlap between the two. Management handbooks offer a variety of instruments or tools for businesses or initiatives that can help very effectively to realise overarching goals.

'Governance' has a central function in coordinating. First, the interactions of the business with its social, institutional and economic environment, and second, the diverse internal processes within the business and specific value chain. Governance structures and processes are complex so the analysis of business governance requires an in-depth understanding of the interconnections between value chain partners as well as with other involved public and private actors (Schauf 2009).

'Organization' includes internal management arrangements, especially regarding hierarchies among managers, team leaders, and within teams or business units and regarding the establishment of efficient processes. The business organization focuses on the practical accomplishment of production and/or trading including the procurement of inputs and the marketing of outputs. 'Organization' is a precondition for the realization of business goals (Schauf 2009). It also includes the external coordination of vertical (i.e. upstream-/downstream) linkages as well as the horizontal cooperation with partner initiatives or enterprises representing a similar position within the chain (Knickel, 2001; Knickel et al., 2006).

Cooperation among producers and other chain actors tends to be of particular importance in alternative food chains (Knickel et al., 2006, 2008). European and national competition policy allows the promotion of cooperation between farmers themselves and between farmers and other actors in the chain. European competition rules for dairy farmers, for example, allow intensive cooperation, both at producer level and between farmers and other chain actors in marketing and processing. Cooperation is possible as long as it creates efficiencies and as long as it does not significantly jeopardise competition in the sector with disadvantages for end-consumers.

**TABLE 4: DIFFERENT MANAGEMENT AREAS AND COMMONLY USED INSTRUMENTS**

Management area	Management instruments (examples)
Planning	<ul style="list-style-type: none"> <li>• Financial and investment planning: financing concept, project management</li> <li>• Business planning: allocation of financial resources and of other inputs</li> <li>• Investment plans for new facilities and production plants: capacities, utilization</li> <li>• Strategic planning: leader with consultant, internal strategy team</li> <li>• Planning of strategic partnerships at the level of the value chain</li> <li>• Product development and innovation strategy</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Navigation of the business: instruments ranging from detailed planning to more integrative and adaptive management</li> <li>• Coordination and communication: degree of internal and external transparency</li> <li>• Leadership: top-down versus participatory, connection with controlling</li> <li>• Decision-making: impulsive or reflective</li> <li>• Managing complexity and social interrelations: interactions with chain partners, institutions, organizations, etc.</li> <li>• Handling risks and insecurities: actively building adaptive capacity and increasing the resilience of the business or initiative; risk management schemes</li> <li>• Trust-based cooperation, fairness between actors, etc.</li> </ul>
Organization	<ul style="list-style-type: none"> <li>• Basic organizational structure; management of branches/groups</li> <li>• Running the business and accomplishment of production and trading activities</li> <li>• Supply chain organization: ordering, contracting, storage etc.</li> <li>• Production, processing in own facilities or through contractors</li> <li>• Logistics: distribution and transport; own vs. contractors</li> </ul>
Personnel management	<ul style="list-style-type: none"> <li>• Recruitment: university cooperation, assessment centres, newsletters, etc.</li> <li>• Training: business specific training; capacity building; development schemes</li> <li>• Performance appraisal: individual/branch agreements; works council</li> <li>• Work arrangements: hours, home office days; family friendly, etc.</li> <li>• Performance evaluation and rewarding systems</li> <li>• Participation of staff, fostering shared responsibilities</li> <li>• Internal communication: enhancing openness and transparency</li> </ul>
Controlling	<ul style="list-style-type: none"> <li>• Financial controlling and accounting: balance sheets, liquidity measures, etc.</li> <li>• Quality control: certification of farms, products and procedures, lab testing, internal and external auditing schemes</li> <li>• Transparency of processes</li> <li>• Environmental impact assessment: sustainability indicators, carbon/water food print, biodiversity impact</li> <li>• Feedback loops: staff members, chain partners, end-consumers</li> <li>• Coaching and/or self-assessment of management team</li> </ul>

Source: Own compilation

The business area ‘personnel management’ is responsible for the performance of staff and continuous capacity development (Schauf 2009). Training and education, participation, internal communication schemes and other work related agreements are important instruments.

‘Controlling’ compares the realised achievements with the envisaged business objectives (Schauf 2009). Financial controlling and accounting are as important as quality controls and certification (organic and other). Internal and external feedback loops support all management areas.

## Adjustments needed during periods of significant growth: some illustrative examples from the case studies

### Organizing the entire chain

The cooperation of farmers often relates to the wish, or urgent need, to establish, and finance, local-level processing, packing or storage. Dairy processing, slaughtering and meat processing, juice making, vegetable sorting and packing are typical examples of food value chains characterized by a bottleneck. Farmers often rely on a locally based processing in particular when they aim to maintain a certain quality of a food product such as 'organic', 'traditional' or 'from the territory'.

A first example examined in more detail are dairy cooperatives. Dairy farmers in Eastern Europe often do not have the opportunity to market organically produced milk because local dairy factories only process conventional milk. In this case, either the farmers can sell their organic milk as conventional milk, receiving a reduced price that might not even cover costs of production or they organise the processing by themselves. The foundation of a producers' initiative usually is the starting point for the establishment of an alternative value chain; e.g. for organic dairy products. Often, these farmers' groups plan to take over a small or old dairy plant in the area and to modernise the plant.<sup>45</sup> The excellent quality of milk and dairy products is a general precondition for the successful marketing of values-based marketing of fresh milk, cheese, yoghurt etc.

A typical challenge for the producers' initiative Eko Žemaitija in Lithuania is the contract-based cooperation with an independent dairy enterprise, which is able (and willing) to process the organic volumes and/or the cooperative's investment in own organic processing facilities. However, access to finance is particularly difficult because a producers' initiative typically has little equity shares. Consequently, banks evaluate the initiative's investment as high-risk and increase interest rates that, in response, reduce expected profitability of the investment. On the other side, more and more consumers are willing to pay a higher price for artisanal and/or organic dairy products made from traditional recipes and coming from the neighbouring rural area (Skulskis & Girgždienė, 2015).

Planika dairy in Slovenia is a limited company owned by Tolmin farmers' cooperative. The dairy company coordinates the supply of partner retail businesses. The management of the dairy can take decisions in respect to daily business affairs but at the same time, it is responsible for the economic viability of the farmers involved. The farmers' cooperative negotiates the prices for the raw milk while Planika dairy realises the payments depending on delivered volumes with individual producers. Planika is the owner of the brand and markets its dairy products under this private label. The processor has a variety of marketing channels; wholesalers and retailers, its own shops, some hotels and public institutions (Borec & Prisec, 2015).

Ekodar organic beef in Slovenia is an example of a producer cooperative that developed its own marketing brand. The initial problem was similar to that of milk processing. In many areas, beef cattle farmers found it hard to sell slaughtered animals to an organic slaughter business and meat processor. A high proportion of cattle from organic farms was thus sold at conventional prices. Due to the bottleneck structure of the food chain, farmers had significant problems marketing organically raised animals. Nowadays, the local slaughtering has organic certification, which is a precondition for the marketing of organic qualities. The joint marketing of organic produce is an opportunity for

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<sup>45</sup> The legal frameworks on farmer cooperation are connected with the CAP goal to enable farmers to respond to market developments. [http://ec.europa.eu/competition/sectors/agriculture/working\\_paper\\_dairy.pdf](http://ec.europa.eu/competition/sectors/agriculture/working_paper_dairy.pdf)

farmers to take over the responsibility for the complete value chain. Quality-brands like organic beef or products from mountainous areas help to ensure transparency from the place where the calf was born to the point of sale in town as well as higher value-added. Modern technology like QR-codes allow consumers to check the origin of products offered in supermarkets. In the Ekodar case, the farmers' cooperative is the owner of the high-quality label that is run as a limited liability business. The company buys the animals and organizes slaughtering and meat processing on a contract basis. Meat products are labelled and distributed to retailers, restaurants and other marketing partners. The development of a high-quality brand might not necessarily require very significant investments in infrastructures and facilities. However, it always requires a professional management.

The initial challenges of a family-owned business can differ considerably from those of a farmers' cooperation. Its foundation can be based on an entrepreneurial decision of a single person or a family team such as husband-wife, father-son, brothers/sisters etc. Decision-making processes and the strategic orientation are – at least at the beginning – easier under the legal framework of limited partners or family trusts than for cooperatives or associations for liability reasons. Access to finance is normally based on personal/family assets such as farmland and buildings. An example is a family enterprise in Turkey founded by husband and wife with experience in trade. The key challenge for the rapid growth phases of this particular case was the establishment of a high-quality supply chain. Local farmers and rural families had to be trained in the sustainable collection and transport as well as in the planting of wild herbs in mountainous areas. The challenges related to quality insurance measures were similar to those of the dairy cooperative: a large number of small suppliers, little knowledge related to the high-quality standard requirements and the establishment of an intermediate food processing. The strategic orientation of the Turkish family business producing a variety of dry organic herbs for the niche export markets adjusted the marketing strategy to the particular international marketing channel. The US-American importer requires excellent social impact related to organic production. Therefore, the herb producer business provides evidence related to the training and income scheme for women in poor villages. Another strategy supported by a variety of management instruments focusses on risk prevention because the contamination of plants at any level of the chain could ruin the business.

### **Coordinating growth among chain partners**

Organic food enterprises and initiatives face a variety of challenges when they expand. During the growth process, the management needs to adjust strategies in order to cope with changing economic and organizational conditions as well as the growing volumes of produced, processed and marketed food products. The subsequent discussion aims to identify typical challenges during expansion and to explore the related adjustments.

The value-based food chains examined in this paper have grown out of a niche market and expanded into medium-sized structures. The particular challenges that businesses or initiatives faced, depended strongly on the type of business or initiative and the development phase they were in.

The Slovenian dairy is located in a mountainous area in north-western Slovenia. Founded in 1957, it has a very long tradition. For a long time, the farmers' cooperative was just responsible for the collection of the milk and the sales of the raw product. In the 1990s, the farmers' cooperative became the owner of Planika dairy, which triggered a first phase of rapid growth. A main goal was to foster the local economy through both increasing farm incomes and providing local employment in the dairy. The strategic development plan aimed to widen the product range while maintaining product quality and traceability. In the next growth phase, market differentiation became more perti-

ment. Planika entered new markets due to regional expansion and therefore faced more competition. The products had to prove that they were significantly different: excellent quality, diverse variety and produced by mountain farmers – “a healthy product from nature”. Today, sophisticated controlling measures and an encompassing integration of the whole value chain ensure the possibility of tracing the product from the end-user back to the dairy farmer. Planika succeeded in establishing a clear profile in the Slovenian market of fresh milk and dairy products. For a few years, the number of delivering farmers started to decrease while volumes remained stable due to increasing production on each farm. The related changes are a sign of consolidation. In 2013, management decided to add a new property to the enterprise’s profile with the opening of an organic processing and marketing branch. The organic product range targets public procurement and offers a new marketing opportunity.<sup>46</sup>

Eko Žemaitija cooperative is a very young cooperative founded in 2006. At its origin is a public initiative aimed at spreading organic farming at local level. Its main goal is to improve the marketing of organically produced milk and to assure that each farmer receives the same price for the milk irrespective of volume and distance. Earlier, organic milk processing and marketing was impossible in northwestern Lithuania. Until 2010, the dairy cooperative was rapidly growing in terms of milk volumes delivered. Both, the number of member farms and the revenue increased (except 2009 due to the economic crisis). Product or market differentiation was not an issue but maintaining hygiene standards, and organising milk collection challenged the daily business. Since the establishment of the cooperative, its members paid attention to maintaining trust in the quality of products (Skulskis, Girgždienė & Mikelionytė, 2014). EU and national financial support helped with an initial investment in a milk truck. Even without a clearly documented growth strategy at that time, the next steps of growth were well prepared: the contracted organic association was qualified to certify new organic dairy products, new marketing channels were developed with small shops in towns and the local hospital. Moreover, the cooperative started to invest in own processing facilities. Since 2013, the product range of cheese, cottage cheese and other traditional products grew from 14 to 23. A differentiation started to emerge together with a territorial expansion of the points of sale and an increasing number of products. Eko Žemaitija products are sold in large retail chains that have special shelves for certified organic products or products of exceptional quality produced by small producers. Such specialised selling places within retail chains help to ensure that consumers can easily find them. The dairy cooperative still sees itself as a small player in the market. In 2014, a professional manager was hired to improve the marketing and organization of processing. However, the young cooperative recognizes that specific management areas need further improvement. Examples are the cooling system for transport in the summer months, the handling of the growing volumes, and the organization of all processes. Due a lack of equity capital, management postponed the next investment project due to the high economic risks. The general assembly decided to go for smaller development steps in 2015. Both are signs of a transition towards consolidation.

The Turkish family business Sunder was founded in 1989 in southwestern Turkey as a trade company. In order to foster economic success, the entrepreneurs started to grow and sell organic oregano. In 1995, Sunder had a total turnover of EUR 27 200 for 5 tonnes of plants. During 2009-2010, their turnover decreased due to the economic crisis. In 2014, turnover reached EUR 1.8 million. Entrepreneurial spirit and the strong feeling of environmental and social responsibility were the drivers of the quickly growing organic processing business. In the beginning, herbs from the couple’s own land were

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<sup>46</sup> In Slovenia, schools are to purchase a fixed proportion of organic food products for the students’ meals.

harvested, dried, packaged and exported to Europe. The product range grew quickly with close cooperation from village families. The collection of wild herbs in remote mountain areas for spices, pharmaceuticals and cosmetics rapidly increased in importance. Constant testing and organic certification for US (2001) and Japanese (2002) markets were major challenges during the expansion of the business. The knowhow of the managers increased constantly through experiential learning. The couple has also endured several failures but is always trying to learn and to improve processes. The training of villagers was difficult in the beginning, which affected the quality of the harvest. With the significant growth, the differentiation strategy evolved further: Sunder offers organic dry herbs from Turkey from wild plants ensuring excellent product qualities (with lab testing, etc.) and high social standards, particularly supporting women in the partner villages and in the small processing plant near town. The business has entered the phase of qualitative growth with a professional production and marketing of high-quality organic herbs. The daughter took over the responsibility for the enterprise's internet presence and for its representation at major international organic trade fairs. The business was able to establish a trust-based relationship with its supplying village families as well as trade partners. Transparency, social responsibility and innovation are key values of the owner-managers. All business areas are well developed and the organization of the value chain is strong. However, contamination of herbs remains a major risk that has to be managed intensively, including laboratory testing and training of employees and families in the partner villages. Moreover, optimal processing and storage conditions have to be maintained and steadily improved. Part of the consolidation and risk reduction strategy is the plan to put more emphasis on the domestic market.

### **Ensuring coherence in business logic, strategy and instrument use**

Coherence to business logic and goals, development strategies and management instruments use, and the related adjustments during the growth process, can very effectively contribute to the sustainable development of agri-food chains. If, however, growth is not managed well, this can lead to complete failure. The subsequent discussion asks whether and how a consistent business logic connects goals (economic and other), and looks at the development strategy and the use of particular management instruments.

The Slovenian dairy Planika has steadily developed since its foundation in 1957 towards a future-oriented limited liability enterprise. It is currently, well-integrated value chain for high-quality fresh milk and dairy products. Business goals are to ensure the profitability of mountain farming and to strengthen the rural economy. The related business strategies seem consistent as they try to connect growth in volume, turnover, product range and geographical marketing area with the maintenance of value-added. Management instruments focus on the maintenance of a high product quality and consumer trust through extensive quality testing, internal and external controlling and certifying schemes. Instruments that support traceability and a direct communication with the consumer help to build and maintain trust. Consumers can visit the Planika dairy information centre or search for information on the well-maintained Planika website. In addition, the new positioning with an organic branch supports the overarching goal of rural economic development through growth and quality differentiation.

The Lithuanian dairy farmers' cooperative has an overarching logic. Several management areas, however, are still in an early phase of professionalization. Inconsistencies remain visible as a result of rapid growth in volumes under difficult conditions such as lacking cooling and processing capacities, inadequacies in the organization of personnel and limited financial buffers. The establishment and early growth phase of the dairy cooperative was very successful in terms of the realization of its main goal to collect, process and sell organically produced milk. The cooperative has been able to realise a

reasonable price that covers the higher production costs of organic farming. It seems noteworthy too that the cooperative has a clear direction even though it lacks a written business strategy. The cooperative is in a process of professionalising management. The professionalization and risk reduction strategy is visible and supported through a number of management instruments. The decision against a major investment project is consistent with the risk reduction strategy formulated in the General Assembly in February of 2014.

The success of the Turkish organic enterprise seems to start with the very distinct value system of the owner-manager family. These values are at the heart of the business philosophy: honesty, reliability, social and ecological responsibility, trust, and an open communication – internally as well as with business partners. Economic stability and clearly recognizable business goals are crucial for any business. The related differentiation and growth strategies implementing the business goals were never written down but they are clearly present in the minds of the owner-manager family. The products are strategically targeted at overseas niche markets for high-quality spices, pharmaceuticals and natural cosmetics; i.e. towards high value-added. Subordinated strategies focus on transparency, sustainability, innovativeness and risk reduction. Controlling is based on a number of quality checks in their own laboratory as well as an independent biochemical testing business. Measures such as advance payments for workers' families with financial problems or individual support for their children's education are not only management instruments ensuring trust but represent social engagement beyond economic interests. This attitude in turn fits well with the preferences of the consumers of the organically grown and processed health products.

The different examples highlight various facets of business logic and consistency. In some cases, also the adjustments needed during growth became visible. It is also obvious that business logic and coherence in management contribute to economic performance, even if this is hard to express in monetary terms. The cases examined did not show major changes in business goals during growth. What was seen, however, is that strategies are actually adjusted in connection with the particular development phase, the related challenges or due to changing framework conditions.

### **Including smaller farms and smaller food businesses in value chains**

In the Lithuanian case, small farms and fair pricing are incorporated explicitly into the business concept of the dairy cooperative. Producers receive the same price even when collection costs are higher due to small milk volumes and/or greater distance from the dairy factory. When the cooperative was processing a smaller quantity of milk, the distribution through local sales partners was sufficient. The increasing volumes required the development of new marketing channels and management adjusted business strategies accordingly.

In the Turkish family business, the professionalization of all management areas has played a significant role. Over time, the company developed from a small, individual herb producer to a local food processor with 20 employees and a large number of supplying rural families. Because of international product standards and certification schemes, adjustments in business strategies and instruments were made. The overarching business logic, however, did not change over time. It is and remains consistent with the family's personal values related to social and environmental responsibility.

The social focus of the Turkish business is also expressed in the targeted purchasing from particularly poor villages and village families. For the business, this is a win-win as the same families live in the pristine mountain areas where they collect the wild herbs. Sunder especially supports the economic situation of women as payments go directly to the women. Many women working at Sunder or selling herbs to Sunder have earned



their own money for the first time in their life. The manager-family is aware of the impact they have on the social structure of poor rural families and the villages. They take responsibility and practice a regular communication with the village leader discussing production-related or social issues. Management consciously fosters the role of women because they believe women make better decisions for the whole family, investing in good food, education and health care.

### **Cooperating in production and marketing does not mean 'cooperative'**

Cooperation in production, processing and marketing seems particularly eminent for smaller farms and smaller food businesses. Without cooperation, the position of smaller players in the market place tends to be weak.

Different forms of cooperation leave varying degrees of freedom for individual actors and it is up to those involved to find and together decide on the most suitable organizational model and legal form. Legally registered cooperatives have a codex and a Board representing the members in management. Associations, in contrast, are registered groups with a codex to which each member agrees by signing the membership of associations. The legal form of an economic association is particularly suitable for farmers' groups such as quality grain producers. Membership systems are easier to handle.

Scopes and forms of cooperation vary very significantly in practice. The main goal should always be to provide maximum benefit for all involved. Machinery rings, for example, can reduce mechanization costs drastically. Joint production tends to entail a certain integration of economic activities, capacities or assets. In milk production, cooperation often extends beyond production to include processing and distribution based on; e.g. a premium brand, or be a full-function joint venture in the form of a jointly controlled company that runs one or several production facilities and organizes the joint distribution of the product.

Producer associations and comparable initiatives face the challenge of balancing a clearly defined active leadership with team spirit and cooperativeness. In this situation, an excellent communication is particularly important in order to build and maintain trust among all partners.

## **Conclusions: key findings and lessons learned**

The comparative analysis presented in this paper helps to recognize different development pathways with their particular challenges, management strategies and instruments. Some more specific findings are:

- Professionalization of the management enables successful growth process and seems to be of central importance for rapidly growing businesses and initiatives (Turkish case). Professionalization is particularly important when market differentiation through higher qualities is accompanying growth in volumes (Slovenian cases).
- Product quality, regional and traditional processing can be starting points for differentiation strategies and an increase in competitiveness which in turn supports farm incomes (Lithuanian case).
- Whether adjustments in strategic orientation are needed (Lithuania case) or it is more important to maintain a core profile and identity of the business (Turkish case) depends on the particular situation.
- In order to strengthen the bargaining power of producers, who are often the weak contracting party, a concentration of offer and therefore strengthening of producer organizations is often helpful (Slovenian beef label).

- Adequate training and constant learning is of particular importance when small farmers or families from remote areas supply primary products of high quality standards (Turkish and Lithuanian cases).
- Access to finances for new investment is a particular challenge for expanding farmers' cooperatives (Lithuanian case).
- Cooperation in production, processing and marketing can significantly strengthen the position of smaller farms and smaller food businesses in the market place (Lithuanian and Slovenian cases).

Lessons learned concerning the interplay among key actors in food chains with their sometimes different management strategies as well as the interplay between public and private sectors:

- The management of businesses and initiatives can be effectively supported through strategic analyses and a coaching of the team. The provision of investment support should ideally be combined with other support measures like coaching for management teams of alternative food businesses and initiatives and capacity building.
- The few examples indicate that adjustments in strategies and management instruments are needed during the growth process in order to maintain a sound business logic. If adjustments are not made at the right time, or in simpler words, if growth is not managed well, this can lead to complete failure of individual businesses and entire chains.
- A successful development depended in all cases on the ability to maintain a high product and process quality and consumers' trust, the inclusion in the chain and the capacity to adapt and to realise significant changes if needed.

Due to the increasing competition in food markets, a professionalization of strategic management and of management processes is of increasing importance. However, it is not helpful to just copy management concepts of corporations. Instead, strategies and instruments need to fit to the particular needs of growing medium-size family businesses, producer associations or food initiatives.

It is helpful to understand the governance of businesses and initiatives that focus on values-based production and marketing as systemic and dynamic. Managing values-based businesses and initiatives needs to address the interdependencies among partners in chains, among the work and engagement of people as well as the level of inclusion of the business or initiative within a food chain or a region.

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