Exploring Integration of Non-economic Goals into Business Models of Small Regional Food Enterprises: Embedded Value Creation

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Abstract

Purpose - Small regional food enterprises (SRFEs) are important in developed and developing nations, with a policy (agribusiness) focus on them as potential growth engines and contributors to healthy local economies. But their survival is increasingly threatened by the globalisation of large retail food value chains. Thus this paper seeks to explore how the value creation component of SRFE business models can be enhanced to maintain their viability.

Design/methodology/approach - Conceptual paper.

Findings - The growth of alternate food networks (AFNs) creates a potentially attractive market segment for SRFEs, whose participation in farmers markets, box schemes and other forms of direct selling to consumers who value locally produced food has grown over the past decade. While the strategic management and marketing literatures suggest that competing effectively requires a tailored and coherent business model, little of the business model literature on small and entrepreneurial firms addresses this distinctive sector. As such, there is an opportunity for a renewed approach to enhancing SRFE business models.

Originality/value - We take particular account of a well-established characteristic of many SRFE enterprises – priority placed on non-economic goals (NEGs), on par with or even ahead of economic ones such as growth and increasing profitability. Some business model frameworks indicate that this will have an effect on approaches to value creation and delivery, but the mechanisms are not well developed. We therefore aim to initiate and develop the concept of business models for SRFEs further by focusing on integrating non-economic personal goals of owners with value creation in their business models.

Keywords: regional food; business models; SRFEs; non-economic goals; owner objectives; co-creation; alternative food networks

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Introduction

Small regional food enterprises (SRFEs) are important in many regional economies because of their prevalence and contributions. While many SRFE owners do not seek rapid or significant growth, holding a combination of both non-economic and economic goals (Ilbery & Maye, 2005; Bosworth & Willett, 2011), they are nevertheless important contributors to a stable and resilient economic community through local employment, revenue generation and contribute to communities’ social fabric (Stickel & Deller, 2014). Understanding how they are most likely to be successful as competitors in the changing food landscape is important for policy and practice in the sector.

Within their industry, pressures from increased globalisation and sophistication of conventional long food supply chains heighten the need for attention to SRFEs, many of whom face challenges to their survival. Rather than trying to develop new ways to participate in traditional food supply chains, some SRFEs have responded to an opportunity to compete in a different segment of the food system - alternative food networks (AFNs) - which has arisen through the emergence of consumer demand for regional food (Bloom & Hinrichs, 2011; O’Neill, 2014). Examples of these AFNs (see Renting et al., 2003; Paül & McKenzie, 2013), which entail short supply chains (Kebir & Torre, 2013; Sini, 2014), include farmers’ markets and other regular local markets featuring artisanal producers, farm-gate operations, food boxes and cooperatives, as well as local independent grocers.

On the surface, there appears to be an external fit between SRFE resources and a strategy to participate in alternative food networks. The size and regionality of SRFEs, combined with the non-economic goals (NEGs) of many of their owners, appear naturally congruent with values that customers seek in AFNs—local, authentic, regional, real food, being close to the producer and being part of community (Kebir & Torre, 2012; Visser et al., 2013). At the same time, a strategic choice of this nature also requires a tailored and coherent business model focused on value creation, delivery and capture in that segment (Margretta, 2002; Morris et al., 2005; Osterwalder et al., 2005; Teece, 2010; Heinerth et al., 2011; Saebi & Foss, 2015; Zott & Amit, 2015).

However, little research explicitly links business models to participation in AFNs. Such strategies differ significantly from strategies for SRFEs that are supplying to conventional long food supply chains, on several dimensions, including: size, customer characteristics (e.g. industrial vs consumer) and expectations of quality, appearance, conformity, availability and customer experience. But little is known about how SRFEs need to design their business models to support such strategies. For this reason, SRFEs may mistakenly think of AFNs as simply another channel for selling their products that can be implemented as an add-on to or direct substitute for existing practices.

Since the design of the business model has been empirically established as central to value creation (Zott & Amit, 2015) and since the influence of SME owners on all aspects of their business is well established (McCartan-Quinn & Carson, 2003; Blankson et al., 2006), the goals of SRFE owners need to be taken into account in business model design. One of the dominant business model frameworks used for entrepreneurial firms, proposed by Morris et al. (2005), highlights this by including owner goals as one of their six elements of consideration for SME business models. While their framework notes that owner goals may not all be related to growth or increasing profitability, it does not develop this in detail. A significant proportion of SME owners give equal or higher prominence to non-economic personal goals over economic ones such as growth and increasing profitability (Stokes, 1995; Dunkelberg et al., 2013). For example, SME owners often value embedding personal objectives in their product or service by way of their interaction with customers, maintaining a certain organizational size and operating under particular personal philosophies (Burns & Harrison, 1996; Blankson et al., 2006; Akgün et al., 2011). These
potentially enhance the authenticity of the value created in AFNs with consumers who share similar principles. In many instances though, SRFE owners do not capitalize on this natural fit and simply enact their personal objectives, without conscious reflection or strategy about how best to leverage the embeddedness of these objectives in the business model they have chosen.

It is against this backdrop that this conceptual article explores the question of how non-economic personal goals of SRFE owners and value creation might be linked in a business model. To answer this question, we review relevant literatures on business models and owner goals for SRFEs and subsequently propose a co-creation approach as a mechanism for linking non-economic owner goals to the value creation business model dimension. In turn, strategies to enhance SRFE business models by leveraging their personal objectives in the value creation element of their business model emerge, contributing to theory and practice. This research will contribute to the business model, and food industry management and marketing literatures.

**Background - Small regional food enterprises (SRFEs)**

**Defining SRFEs**

Small regional food enterprises are an important group in many regions. For example, small businesses, with fewer than 20 employees, accounted for 86% of employment in agriculture, the highest in any sector, and 83% of value added in Australia in 2011 (Connolly et al., 2012). Australian small businesses are also slightly over-represented in regional areas and more than half the small businesses in Queensland and Tasmania are based outside their capital cities. Further, in regional Australia, agriculture is the most prevalent industry for small businesses, comprising a quarter of small businesses, equal to business services (Connolly et al., 2012). However, research on food enterprises is fragmented, encompassing a range of disciplines (Lawley & Birch, 2014) including agriculture, agri-business, tourism and hospitality, nutrition and dietetics, community and regional development, entrepreneurship, strategic management, marketing and geography. Consequently a ubiquitous definition of what constitutes a SRFE is lacking (O’Neill, 2014), and in order to define SRFEs, we draw on definitions of small enterprises and regional food across the literature.

The definition of a small business varies across and within countries in terms of the metric (e.g. number of employees, revenue) and depending on purposes (e.g. for statistical data collection, financial services, tax obligations, privacy laws). Number of employees, size of capital investment or assets, or revenue are typical measures (Yesseleva, 2012; Arafat & Ahmed, 2013). Thresholds can also vary between industries (e.g. manufacturing and services sectors). Within the small business literature, scholars have typically adopted number of employees as the metric, since this information can be more readily available than financial data, and utilized thresholds defined by the country or region of the research context.

In terms of employee numbers, within the EU, micro-firms are defined as having up to nine employees, small firms as 10-49, and medium firms as 50-249. In Australia, a microbusiness is defined as having fewer than five employees, with small business ranging from 5-19 and a medium enterprise as having 20–200 employees (Australian Bureau of Statistics (ABS) - Small Business in Australia, 2002). The US sets definitions for small businesses within industry groups, with 100 employees as the most common limit for small firms in wholesale trade industries (Arafat & Ahmed, 2013).

For their part, definitions of regional food also vary, with the terms ‘regional’ and ‘local’ often used synonymously. One common theme is defining regional food as a component of sustainable food practices (Byker et al., 2010). That is, the regional attribute
of food is often packaged with other attributes such as organic, seasonal, locally grown, non-processed attributes of foods into one holistic sustainable definition. Others define local food in relation to geographic proximity that consists of growing, processing, purchasing and consuming within a certain geographical boundary (e.g. Food and Agriculture Organisation (FAO), 2010). Commercially, this notion of geographic proximity is often communicated with the marketing of specific regions. In Australia, for example, regions such as Barossa, South Australia, Hunter Valley, New South Wales and Gippsland, Victoria are marketed as food regions. Some definitions only imply geographic parameters rather than specifically stating them, while others emphasize the term ‘local’ or ‘regional’ in the supply chain - i.e. food that is regionally produced, processed and consumed (Blake et al., 2010). More fine-grained approaches link locality to the produce itself and its requirements for maintaining freshness (e.g. berries vs potatoes). Regional food is also often linked to non-urban communities facing economic sustainability issues (O’Neill, 2014).

Drawing these together, we define SRFEs as those with fewer than 50 employees (incorporating both the Australian and European metrics), located in non-urban regions, involved in the food value chain. While this industry definition is broad, it offers scope to consider business models related to small enterprises (e.g. farmers, artisanal producers) across the food value chain.

**Alternative food network opportunity**

After a significant period of being considered stable, the food production industry faces competitive pressures, challenging firms to continually search for new ways to compete. Globalisation is increasing (Hockmann et al., 2013), food value chains are more complex (Food and Agricultural Organisation (FAO), 2010), consumer preferences are changing and sustainability issues are generating increasing pressure. In addition, in contrast with larger food producers and suppliers, SRFEs experience difficulty participating in established retail markets and value chains associated with supermarkets (Heijden & Vink, 2013). Their small size combined with isolation create logistic challenges for large distributors and retailers, and their ability to meet consistent volume and quality requirements is constrained (Morris & Buller, 2003; Martikainen et al., 2014). Their limited resources also reduce capacity to adapt to changes in consumer preferences and demand. Facilitation of SRFE access to global food supply chains is consequently a topic frequently addressed in the regional and economic development fields (e.g. Morris & Buller, 2003; Sonnino & Griggs-Trevarthen, 2013; Leblanc et al., 2014).

However, growing consumer demand for regional, local and fresh food has created an opportunity for SRFEs to participate in a different segment of the food market. The importance and quality of using fresh regional food is advocated by well-known celebrity chefs in mainstream media. For example, television shows such as Master Chef often emphasize the use of fresh regional food and have gained global momentum with consumers. Organizations such as Jamie Oliver’s Ministry of Food have garnered some focus in academic discourse for contribution to awareness of fresh local food, communities and society (see Hollows & Jones, 2010). Additionally, expressions such as ‘paddock-to-plate’ and ‘farm-to-fork’ have become common terms in consumer vocabulary and restaurant philosophies alike. Other consumer trends such as health initiatives towards following local/regional diets, purchasing regional organic food, participating in regional food tourism and issues concerning food security further support the increase in regional food demand (Boyne et al., 2003). These trends are also in line with a more generally observed consumer interest in greater levels of interaction and engagement with the creators of the products they are buying, and which has triggered firm interest in service-

The increase of regional farmers’ markets, community gardens and co-op markets constitute examples of responses by small regional producers in Australia to this demand (South Australian Food Centre, 2010). On the corporate side, large retailers such as Woolworths in Australia and Tesco in the United Kingdom have aimed to support local producers to cater to consumer demand for regional food (Marketline, 2011; Marketline, 2013).

The rise of AFNs has created an opportunity for SRFEs to position themselves and seek out a different customer segment. Supplying to these consumers who value regional food through participation in local distribution channels and other short supply chain solutions is also more feasible for small enterprises. SRFEs that capitalize on strategies centered on regional food have two potential advantages. First, some of the factors which constrain them elsewhere, such as regionality, smallness, seasonality and variability in product quality, do not present the same liability. Second, these factors also potentially create an advantage by providing an authenticity which larger producers and suppliers cannot readily match. Non-economic goals often sought by SRFE owners, such as local, community and social values, potentially help maintain a point of differentiation from mainstream products in global food supply chains and align with consumer trends. Related to this, competitors who offer different value to customers (e.g. large volume, reliable supply to consistent specifications for large retailers) should not be easily able to replicate the business model of a SRFE offering seasonal, fresh, naturally variegated, with low food miles for local consumers.

Literature review

Business models and SRFEs

Given our focus on business models for one specific subset of firms (SRFEs), we do not propose to provide a comprehensive review of the business model literature as this can be found in several recent papers (e.g. George & Bock, 2011; Zott et al., 2011; Lambert & Davidson, 2013; Speith et al., 2014). Instead, we highlight some general trends in business model research and advance elements of the literature most relevant for SRFEs participating in AFNs.

The business model concept has attracted growing practitioner and scholarly interest since the mid-nineties (Casadesus-Masanell et al., 2010; Chesbrough, 2010; Coombes & Nicholson, 2013). The term is prevalent in scholarly publications and the concept of a business model is increasingly regarded as a useful unit of analysis in management research (McGrath, 2010; Clauß et al., 2014), being variously linked to strategy, competitive advantage and performance (Zott et al., 2011). While the number of papers which focus explicitly on defining, theory building, classifying, identifying the elements of or researching performance effects of business models is more limited than uses of the term alone, the number has also grown significantly since the early 2000s, from 24 to 42 a year in 2004-07, to 83 in 2010 (DaSilva & Trkman, 2014, p. 380).

Reviewers consistently note that business model research is being developed within several streams, including e-business, technology management, strategy, innovation and organisational configurations (George & Bock, 2011; Zott et al., 2011). As a result, there are multiple definitions of the term (e.g. Margretta, 2002; Morris et al., 2005; Osterwalder et al., 2005; Teece 2010; Zott et al., 2011) and integration between various business model concepts has not yet emerged (Coombes & Nicholson, 2013; DaSilva & Trkman, 2014; Demil et al., 2015). Nevertheless, reviewers have identified three main streams within the literature: business models for e-commerce (found mainly in the IT field); business models
as activity systems that may include external components (in the management and entrepreneurship fields); and as a source of innovation (in technology management fields). In turn, empirical research has examined business models as a basis for enterprise classification, their link to performance as a source of innovation and business models and enterprise performance (Lambert & Davidson, 2013).

Despite the diversity within the literature, three broad components related to value creation and capture appear commonly in business model frameworks (Speith et al., 2014). The first concerns the value to be offered, with references to target customer segments and a value proposition commonplace (Margretta, 2002; Morris et al., 2005; Johnson et al., 2008; Teece, 2010). The second relates to how value will be created, with convergence on pinpointing the elements that deliver value. The components of the activity system for creating value are conceived of as either internal, entailing resources and process (Osterwalder & Pigneur, 2010) or external, involving networks among resource holders such as customers, suppliers or partners (Zott & Amit, 2009). The third element of most business model approaches is how value will be captured. This component is described variously as a viable structure of revenue and costs (Teece, 2010), the economic model (Morris et al., 2005), the realization of economic value (Chesbrough & Rosenbloom, 2002), and the economic logic that establishes how to deliver value at reasonable cost to customers (Margretta, 2002). Thus the creation of value for a customer segment sits at the center of most prevailing conceptualizations of business models (Demil et al., 2015), supported by activity systems that will deliver that value, and a value capture mechanism that will meet the organization’s objectives. As such, it is an overarching integrative concept that spans multiple business disciplines (Teece, 2010).

The need to tailor a business model to the strategy of the firm is also a recurrent theme in the business model literature. For instance, shifting to a service-dominant logic, in response to the growing importance of customer-oriented thinking (Kowalkowski, 2011), is considered to require a different business model from a product-dominant logic (Claub et al., 2014). As well as a different value proposition, a service-oriented business model needs appropriate processes for service co-creation between the enterprise and its customers. This notion of processes for interaction with customers is consistent with research defining the business model as extending to networks beyond the firm boundary (Teece, 2010; Zott et al., 2011) and identifying the nature of interactions with the environment, including work on open innovation (e.g. Chesborough, 2007). In this context, the type of interaction that occurs between customers and producers in AFNs can be conceptualized as a form of co-creation that enhances the product.

Much of the work on business models has been undertaken in the context of start-ups (Demil et al., 2015) and is specific to high technology and IT sectors, with a handful of other industries such as airlines analysed in detail (DaSilva & Trkman, 2013). With a handful of exceptions (e.g. Vorley et al., 2009; Sanchez & Ricart, 2010; Morris et al., 2013; Martikainen et al., 2014), business models for firms in the food industry are largely overlooked in the literature. This is despite the conventional view in the management research literature of agribusiness as different from manufacturing and service industries, in part because of the role of comparative advantage and perceived prevalence of commodity offerings. Thus, empirical business model studies tend to be concentrated in the media, telecommunications and media industry, with a smaller number in biotechnology (Lambert & Davidson, 2013). In contrast, in many countries, agriculture, especially that conducted by SRFEs, makes minimal use of high technology devices or knowledge (Sivertsson & Tell, 2015).

The limited body of work on SME business models in the food production sector, which speaks to the SRFE experience, displays the same diversity in definitions and components of business models. At the same time, value creation, delivery and capture are
common themes throughout this work as well. For instance, in their analysis of business models for third party logistics solutions for local food supply chains in Southeast Finland, Martikainen et al. (2014) adopt Osterwalder & Pigneur’s (2010) business model canvas, which incorporates each of the three themes. Morris et al. (2013), who examine Russian food service ventures, identify value creation for specific market segments, an economic model and an operating model – the structures and processes for value creation. Where business models are included in economic development literature, the focus typically centers on what Zott & Amit (2009) conceptualize as value creation in networked markets. For example, Vorley et al. (2009) propose three generic business models based on alliances and linkages between the producers and other stakeholder in the value chain to mitigate challenges facing SFREs in developing economies. Sivertsson and Tell (2015) explore the barriers that farms in Sweden, which are often micro-firms, face in considering or adopting business model innovation. Sanchez and Ricart (2010) develop business models categories for entry into ‘Bottom of the Pyramid’ (Prahalad, 2004) markets, which they describe as low income market, providing insight on how business models in low income markets differ from those in developed economies and how an enterprise can create value in such markets.

Further, empirical work has primarily employed traditional economic measures including revenue and equity growth, market capitalization and profitability (Lambert & Davidson, 2013). Non-economic indicators such as ability to provide social value to stakeholders and resilience in challenging markets are used in a smaller number of studies, although these tend to address developing economies (e.g. Mair & Schoen, 2007; Sanchez & Ricart, 2010). These latter sets of measures implicitly acknowledge that not all enterprises will share the same set of objectives for their business.

Small and entrepreneurial enterprises outside the high technology sectors have been addressed to a degree throughout parts of the business model literature (e.g. Morris et al., 2005; George & Bock, 2011). As with other management constructs, understanding of business models in large enterprises cannot be simply extended to small enterprises (Morris et al., 2005). For instance, although literature explores how strategic behaviour, such as choice of a business model, is affected by cognitive factors of a firm’s decision makers, the influence of an SME owner can be comparatively stronger than in larger organizations. Since this decision making is typically concentrated in the owner in small enterprises, the perceptions and attitudes of the decision maker (owner) have a strong influence on their choices (Garcia-Perez et al., 2014). However, there is little attention in the business model literature to how personal, non-economic goals (NEGs) of owners influence business model choices.

While Morris et al. (2005) propose one of the few BM frameworks to explicitly address an owner’s goals, and acknowledge the incorporation of non-economic and well as economic elements, they give little explicit attention to how these influence the second level of enacting the strategy. In subsequent development of the framework, Morris et al. (2013) point out that personal as well as non-economic and economic objectives influence business model choices. Accordingly, we are interested exploring the influence of personal NEGs even further, since SRFEs, like many SMEs, often have a mix of economic and non-economic goals, and since their owners have a strong influence in shaping the strategy and behaviour of their enterprise.

Owner goals and SRFEs

The goals of SME owners have consistently been demonstrated to exert a strong influence on all aspects of a business (Stokes, 1995; McCartan-Quinn & Carson, 2003; Blankson et al., 2006). Although the influence of personal objectives on the range of business activities including marketing, HR, management, finance within SMEs, has been established in the literature, how these are incorporated within an overarching integrated
approach, such as the business model, has not been well explored. It is also well established that SME owners value embedding personal objectives in their product or service by way of their interaction with customers, maintaining a certain organizational size and operating under particular personal philosophies.

SMEs differ from larger organizations in the way they embed value into to their business models. For example, McCartan-Quinn and Carson (2003) draw attention to the nuance of marketing practices particular to small businesses, suggesting that often the capability of a small business to market itself effectively is subject to overreliance on the omnipresence of owner. The implications associated with such a reliance on the owner’s marketing capabilities lead to the inherent embedment, or at a minimum influence, of personal objectives into organizations business functions (Ahmadi & Helms, 1997). While the influence that an owner’s personal perspective, style and objectives have on small businesses has broad consensus in the literature (e.g. Ahmadi & Helms, 1997; Spence & Rutherfoord, 2001; McCartan-Quinn & Carson, 2003; Blankson et al., 2006), little work has considered how the personal objectives of small businesses (e.g. restricting the size of the business; or providing more personalized service by emphasizing relational transactions with consumers (Burns & Harrison, 1996; Coviello et al., 2006) may contribute to enhancing the value creation component of business models. We find this point particularly salient to SRFEs. The integrity of SRFE products is often their main appeal to consumers and point of differentiation from larger commercial competition, and is typically underpinned by owners’ personal objectives, but are not always well portrayed within value offering.

While the literature examining SME performance has traditionally defined success in terms of economic indicators such as growth, profit or turnover (Davidsson et al., 2009; O’Cass & Sok, 2013), core motivations for small business owners also encompass non-economic goals (Dunkelberg et al., 2013). Here we focus attention on the SRFE literature, particularly those participating in alternate food supply chains, which indicates a similar variety of goals to the general SME literature. Non-economic objectives related to personal and/or social outcomes stand equally alongside economic objectives for SRFE principals (Hinrichs, 2000). We typify the three most apparent common themes of SRFE owners’ NEGs based on the desire 1) for authentic human-to-human interaction; 2) to remain a certain size; and 3) to operate based on specific personal philosophies.

In relation to the first theme, many SRFEs view establishing genuine relationships and social connection with consumers as an important personal NEG of their business (Hinrichs, 2000). The idea of establishing human-to-human (consumer-to-producer) connections is highlighted within the concept of social economics (Lukkarinen, 2005). First explored in Polya’s (1944, 1957) work, social economics focuses on achieving social objectives in tandem with economic objectives (profit) (Swedberg, 1997). Within the entrepreneurship literature, this balance of social and economic objectives is referred to as embeddedness (Jack & Anderson, 2002) and has gained renewed interest in research contexts such as regional food (e.g. Banks & Marsden, 2000; Sonnino & Griggs-Trevareth, 2013; Cabras & Bosworth, 2014). This trend also reflects the growing consumer trends in the regional food sector.

The second reoccurring personal NEG amongst SRFEs – the desire to remain a certain size – is also connected to social economics. This objective is one element in shaping SRFE business models which differ from those of large food businesses, whose performance is frequently measured by revenue or profit growth. Profit generation is not the sole purpose of small enterprises featuring social economic attributes as part of their business models (Hudson, 2010), and is characteristic of many SRFEs. The degree to which an enterprise endeavours to achieve economic objectives, within the concept of embeddedness, is termed instrumentalism (Block, 1990). Hence, some SRFEs would exhibit lower levels of
instrumentalism than large food companies. The personal objective to grow economically is dependent on an individual SRFE’s balance between social relations and entrepreneurial drive (Ilbery & Maye, 2005). Depending on the latter balance, some SRFE owners, do not aim to grow their business beyond sustaining a viable small enterprise.

However, a more acute focus on SRFEs, outside of direct comparison to large food operations, may reveal higher degrees of contextual instrumentalism. That is, to operate and sustain a viable small enterprise, some SRFEs may display heightened levels of instrumentalism to the point of achieving the necessary economic outcomes. For instance, SRFE personal objectives centered on maintaining a consistent business size so that they can continually employ a certain number of local employees every year is inherently connected to achieving and sustaining certain economic viability within the region.

The third theme connected to SRFE personal NEGs is their personal philosophies, several of which have been consistently reported in research on this sector. One set of SRFE personal philosophies is underpinned by sustainability. For example, SRFE owners may have a personal philosophy based on the Slow Food movement and operating within a set number of food miles (Starr, 2010) or using organic production methods (Ilbery & Maye, 2005) that represent higher quality and more sustainable approaches to business. Another set of personal philosophies concerns health and lifestyle implications. Research has established, that often when new rural entrepreneurs start their business, the pursuit of a renewed, healthier lifestyle is a main driver (Akgün et al., 2011; Bosworth & Willett, 2011). In Australia, 55% of farm enterprises are classed as small (<$100k in production operations) (Australian Bureau of Statistics (ABS) – Australian farming and farmers, 2011); and in the US, the small farm sector has experience renewed growth (USDA National Agricultural Statistics Service, 2013)—which also provides some initial evidence connected to the lifestyle shift sought by emerging SRFEs. SRFE beliefs pertaining to notions such as producing, selling and buying local products to help support regional economies comprise a final set of reoccurring personal philosophies. For example, giving back to the community, creating community engagement and a sense of place and belongingness, are personal philosophies noted in SRFE contexts (Brunori, 2007; Cabras & Bosworth, 2014).

The literature provides evidence of a range of personal NEGs that may influence SRFE business models beyond traditional economic objective priorities. As such, we seek to better connect and embed NEGs into the value creation aspect of SRFE business models. The following discussion outlines our approach to this opportunity via value co-creation.

Discussion

While the literature recognizes the influence of owners’ NEGs on the business functions of SMEs in a broad sense, their influence and impact on the value creation component of business models is not well spelt out. Personal NEGs based on social interaction with consumers, controlled growth and personal philosophies are particularly common in the context of SRFEs. How these personal objectives can be embedded and activated as a mechanism to optimize value creation processes in SRFE business models, represents a gap that has not been well developed. As such, we offer and discuss the concept of value co-creation as a starting point and mechanism for understanding and embedding the link between SRFE owners’ personal NEGs and the value creation component of their BMs.

Value co-creation is a foundational premise and principal axiom of the service dominant logic (S-D logic) framework. Instead of emphasizing the production outputs (goods dominant logic) of an organization, S-D logic encourages a sharper focus on the service processes related to holistic value creation between all stakeholders of an organization (Vargo & Lusch, 2015). Within the S-D logic framework value co-creation
represents the notion of crafting the value of a product together with customers in their consumption experience, so that mutual benefit is achieved between all stakeholders in a market experience (Vargo & Lusch 2004, 2008). Thus, the concept of value co-creation plays a central role in reframing how organizations can move beyond a singular focus on production outputs, to how value can be better embedded in organizations’ business models (Clauß et al., 2014).

Support for using the SDL framework to understand and embed value co-creation into business models is emerging (e.g. Ng & Briscoe, 2012; Storbacka et al., 2012; Clauß et al., 2014) and offers a point of differentiation in SRFE business models. Value co-creation encourages more reciprocal value creation processes between SRFE producers and consumers, beyond the often economically focused objectives and perception of value in larger commercial businesses. It is fitting of the direct nature of interaction between stakeholders that is typical of SRFEs. The direct interaction between SRFE producers and consumers often yields distinct personal relationships and encounters (Feagan, 2008). As a result, a sense of mutual trust between stakeholders is central to SRFE type contexts (Hinrichs, 2000). Value co-creation offers a marketing perspective that is underpinned by integrity, which helps build trust amongst stakeholders (Abela & Murphy, 2008) and would likely underpin the personal philosophies embedded in SRFE owners’ personal NEGs.

Furthermore, the personal NEGs of SRFE owners align with the perceived benefits of regional food consumption often sought by consumers (e.g. personal and authentic interaction with regional producers) (Feagan & Morris 2009; Kebir & Torre, 2013); supporting and sustaining local economies and communities (Feagan & Morris, 2009; Sini, 2014); and concern for personal health, lifestyle and environmental sustainability of regional food consumption (Lamine et al., 2012; Kneafsey et al., 2013; Visser et al. 2013; Sini, 2014).

Despite the natural congruence between the personal non-economic objectives of SRFE owners and the value co-creation concept, little conceptualization exists on how this relationship may be developed and realized within business models. Accordingly, Table 1 illustrates, with a discussion to follow, how value co-creation may act as a mechanism that draws common SRFE owners’ personal NEGs together with the perceived benefits of regional food consumption, to help enhance the value creation component of SRFE business models.

Table 1: Value Co-creation as Mechanism to Enhance Value Creation via Owners’ Personal NEGs in SRFE Business Models

<table>
<thead>
<tr>
<th>SRFE owners' personal objectives</th>
<th>Using value co-creation as the mechanism to optimize value creation in the consumption of regional food</th>
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</thead>
<tbody>
<tr>
<td>Desire for social interaction</td>
<td>Provide interactive opportunities for customers to co-produce or suggest customized or new products, to complement face to face interaction</td>
</tr>
<tr>
<td>Desire for controlled growth</td>
<td>Include on the products packaging or guide consumers to other communication material (websites, social media pages, blogs, media articles, etc.) that informs the consumer on the SRFEs strategy of remaining a certain size and educates consumers on why the SRFE pursues this strategy, and encourages feedback</td>
</tr>
<tr>
<td>Personal philosophy pursuits</td>
<td>Clearly communicate and educate consumers on how and why personal philosophies such as slow food movements, community engagement, sustainability, healthy lifestyles, food miles, fit the product and why they are of value, and encourage consumers to share these pursuits</td>
</tr>
</tbody>
</table>
By way of Table 1, the value co-creation concept has the potential to act as a mechanism to connect and embed personal objectives in the value creation component of SRFE business models. As value co-creation centers on facilitating mutual value with consumers, SRFE owners may be able to better leverage and communicate the integrity of their personal objectives presented in Table 1. The following expands on the suggestions presented in Table 1, providing some practical examples of how value co-creation may manifest in relation to SRFE owners’ personal NEGs.

In relation to personal objectives related to social interaction, the organization (SRFE) plays a key role in facilitating value co-creation experiences to stakeholder interaction (Natti et al., 2014). Beyond face-to-face interaction at local retail outlets, markets and festivals, where direct interaction is a natural opportunity to establish consumer relationships, we suggest that SRFEs consider and facilitate opportunities to interact with consumers in such ways that further build and enhance personal interaction (Table 1). For example, SRFEs may encourage customers to co-produce or demonstrate how that they are using products they have purchased. SRFEs could ask consumers to share recipes or videos using their products on their websites. Consumers could then vote on the best recipe, and the winning recipe could be distributed where the SRFE product is sold (e.g. local retail shop or market); or included on the product’s label for a period of time. Further, if the recipe leads to increased sales, perhaps the SRFE may even consider profit sharing with consumers. Another example, may be a SRFE facilitating a relationship between a consumer and another SRFE that may also have products that the consumer is interested in purchasing. This instance would be illustrative of using value co-creation to build more personalized relationships not only with consumers, but also with other SRFEs, yielding mutual value for multiple stakeholders.

The size (controlled growth) of SRFE organizations (i.e. not being seen as too ‘big’ or ‘commercial’) is a personal objective of owners (Table 1) and important to consumers. Benefits of regional food consumption such as integrity and authenticity (Kebir & Torre, 2012; Visser et al., 2013) are attributes characteristic of the value co-creation perspective (Abela & Murphy, 2008), and connected to the size of a SRFE. Value co-creation can be used as a mechanism to embed the personal objective of remaining a certain size into SRFE business models value offerings. To embed the objective of remaining a certain size, SRFEs may express that they are locally owned and operated on their packaging and direct consumers to other communication materials (e.g. a website) that provide a narrative on their strategy for remaining a certain size. The narrative may focus on the value they co-create with the community in terms of providing local citizens with employment and sourcing ingredients from other regional organisations. SRFEs could also convey a narrative about the importance of remaining a certain size to protect the integrity of their product, and invite consumers to give feedback (e.g. via posting photos on Instagram) on how or what represents integrity or authenticity in a SRFE organisation or product that they use.

Personal philosophies related to ideas like food miles, sustainability, organic production, health, lifestyle and community engagement are common NEGs of SRFE owners (Table 1) and consumers alike. These personal philosophies can be optimized in SRFE business models via value co-creation. For example, SRFEs may choose to host community events, such as a ‘community supper’ where residents from the local community can dine on SRFE products with each other at the location of a SRFE. During the event the SRFE(s) may offer education materials or presentations on, for instance, the seasonality of local food, cooking techniques, and information and challenges associated with sustainable and organic production, and healthy lifestyle strategies related to food, that consumers can discuss and participate in. In turn, value results from the mutual exchange of knowledge between producers and consumer, the difference between SRFE product production and mass produced food becomes more tangible, and embeddedness is generated within the region. SRFEs may also choose to donate a portion of revenue from the community supper
back into the local region, thereby assisting with the viability of regional economy. Also, a SRFE’s packaging and/or website, blog or social media page can be used as an education tool to communicate their philosophical narrative with consumers, possibly leading to opportunities for consumers to express how their own philosophy aligns with the organization via forms of user feedback.

On the whole, the concept of value co-creation offers a platform for SRFEs to embed and potentially leverage their personal objectives in the value component of their business models. This understanding will allow SRFEs to enhance their business models and thereby generate more authentic avenues for value creation with consumers. While some large commercial businesses offer similar value creation avenues, their authenticity is sometimes questioned by consumers (Visser et al., 2013), impeding authentic value co-creation.

Conclusions, limitations and future directions

To summarize, this paper offers a starting point for understanding the influence of SRFE owners’ personal NEGs on the value creation component of SRFE business models. Theoretically, our paper supports the broad influence of the non-economic personal objectives of SME owners established in the literature, and specifically delineates three personal objectives common in the SRFE context. A noteworthy theoretical issue that our paper unpacks is the nexus between personal NEGs and their specific influence on the value creation component of SRFE business models. Our paper offers an initial concentration on this gap, and a novel theoretical perspective of value co-creation as mechanism for leveraging personal objectives within the value creation aspect of SRFE business models. The link between owners NEGs and value creation in SRFE business models may play out in a variety of ways through the value co-creation mechanism, but ultimately provides a pathway for SRFEs to enhance their point of differentiation from larger, more commercial food producers. As a result, we present some conceptualizations of how value co-creation may be realized in relation to SRFE owners’ personal objectives.

For practice, clarity is gained for SRFEs and other small enterprises towards enhancing small enterprise-centric business models. An understanding of the influence of personal objectives in the value creation process and how these can be developed and communicated with consumers via value co-creation, emerges. Value co-creation can help enhance SRFEs ability to facilitate proactive value creation experiences with consumers on a more interpersonal level, and is also conducive to embedding their growth and philosophical objectives. Practicing value co-creation constructively with economic objectives, can contribute to more viable SRFE business models, which are crucial to regional economies (Winter, 2003).

While our paper offers some theoretical and practical contributions, it is subject to limitations. This research is conceptual and confined to exploring the influence of personal objectives on a single element of SRFE business models – the value creation component. The over-emphasis of personal objectives in relation to value should be considered as it may jeopardise the economic viability of small enterprises (Block, 1990; Winter, 2003). The imbalance of personal objectives in tandem with social and economic objectives can create instability in SRFE business models. Finding alignment with social and economic objectives is not easy to achieve and individual SRFEs will differ somewhat (Hinrichs, 2000; Leblanc et al., 2014). Researching alignment between objective sets is therefore critical and would make for interesting future research.

Empirical research to extend understanding of SRFE business models in responding to challenges and opportunities in their competitive landscape is needed. The business models adopted by SRFEs could be expected to vary based on how each firm embeds value in response to their competitive landscape and targeted customer segment. For example, we
make the presumption that stakeholders will want to co-create value. However, individual stakeholders will likely have differing levels of desire interact in value co-creation experiences. Also, we do not sufficiently explore the issue of time. Many SRFEs are time poor. Most of their effort and resources concentrate on producing their products. Thus, the length of time and effort involved with transitioning into a business model that better supports value co-creation should be considered, as limitations in SRFEs owners’ impetus and locus to develop value co-creation experiences will emerge. Understanding the desire of stakeholders to develop and participate in co-creation experiences, especially in relation to the time and effort involved, would make for interesting future research.

In unpacking the themes associated with SRFE personal objectives, some overlap with social objectives was evident. While we postulate that personal objectives comprise a separate set of objectives, we acknowledge this overlap and suggest it as an interesting avenue for future research. That is, do SRFEs (and other small enterprises) view personal and social objectives synonymously or as distinct objective sets? In addition, our study does not detail how consumers perceive the personal NEGs of business owners to be embedded in the value component of business models. Research that investigates if and how (e.g. via traditional communication and/or by the actions of the business) consumers perceive personal objectives reflected in the value component of business models would provide insight on how SRFEs might enhance their business model and make for fruitful outcomes.

References


