# Agro business in a changing competitive environment – Campania firms' strategic, marketing and financial choices

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**Abstract:** Over the last few years, the agro food industry has been undergoing a process of accelerated change. This exploratory research analyses the strategic choices of Campania (Italy) agro food firms and focuses on competitive issues; issues that are largely affected by the mono-product nature of the SMEs, which characterise the economy of Campania. In this context, the paper investigates the critical factors of success and/or failure of the Campania agro food industry, the strategies adopted by firms, their resulting performance, their capital structure and the actions necessary to increase competitiveness. The methodology is based on secondary data research, literature review, and a survey of 97 firms and 12 experts' interviews. The research demonstrates some strategic problems of Campania firms, relating to competition, decision making and financial performance. Some firms were found to implement winning strategies, with their most important characteristic being their marketing orientation.

**Keywords:** agro; food; business; industry; strategy; marketing; finance; Italy; Campania; performance; capital structure.

**Reference** to this paper should be made as follows: Rossi, M., Vrontis, D. and Thrassou, A. (2014) 'Agro business in a changing competitive environment – Campania firms' strategic, marketing and financial choices', *World Review of Entrepreneurship, Management and Sustainable Development*, Vol. 10, Nos. 2/3, pp.312–333.

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This paper is a revised and expanded version of the paper entitled 'Competition and performance of agro food firms: strategic and financial choices of campania firms' presented at 5th Annual Euromed Conference of the Euromed Academy of Business, Glion-Montreux, Switzerland, 4–5 October 2012.

## 1 Introduction

### *1.1 About the research*

Over the last few years, the agro food industry has been undergoing a process of accelerated change, consequent to the incessantly modifying food geography, both from the demand and the supply side. This essentially exploratory research (Selltiz et al., 1976; Tsetsekos, 1993) analyses the strategic choices of Campania agro food firms as well as their wider strategic management process, performance and capital structure. The study focuses on competitive strategies that are largely affected by the mono-product nature of the SMEs, which characterise the economy of the Campania region (Italy). Historically, researchers (Modigliani and Miller, 1958; Titman, 1984, 2002; Miller, 1988; Rajan and Zingales, 1995) tried to explain how firms choose their capital structure, since identifying an optimal structure can maximise the value maintaining their financial mix. The analysis and review of different approaches in the literature confirm an optimal composition of financial sources; that must be compatible with the strategic profile of the firm in order to take part in the value creation process.

In this context the research investigates the critical factors of success and/or failure of the Campania agro food industry, the strategies adopted by regional firms, their resulting performance, their capital structure and the actions necessary to increase competitiveness. The methodology is based on extended secondary data research and literature review, as well as on a survey of 97 firms and 12 experts' interviews. Secondary data was collected mostly from major agro food companies' data found in the AIDA (Bureau Van Dijk), Italian National Statistic Institute (ISTAT), Italian National Agriculture Institute (INEA), Italian National Agriculture and Food Services Institute (ISMEA) and Campania Region databases. The acquired data has substantially helped to define the context of the research in both industrial and organisational terms (e.g., number of firms, size, capital structure, performance); as well as to offer a point of comparison and interrelation to the primary research (survey and interviews) results.

Combining the above methods, the research demonstrates some fundamental strategic problems of Campania firms; relating primarily to competition, decision making and financial performance. In parallel and contrariwise, some firms were found to implement winning strategies (Vrontis et al., 2011b), with their most important characteristic being their marketing orientation: specifically, their ability to understand and predict market trends and consumer behavioral patterns and to adopt appropriate and timely strategies.

The innovative value of the research lies in its approach to the subject, which beyond strictly structural and financial analyses, it retains a comprehensive outlook on agro-business; ultimately reaching findings and prescribing managerial action of a marketing-oriented strategic essence. The findings call for and pave the way for further research that befits contemporary management theory and practices in a modulating and constantly unpredictable business environment.

### *1.2 Background to Italian agro-business studies*

In recent years, studies have underlined the importance of applying strategic processes and business marketing techniques, to agro firms. Antonelli and Viganò (2000) analysed agro-food Italian products with protected designated origin. Their studies on the strategic choices and marketing mix of single firms and consortia demonstrated that "*while larger processing firms try to develop their own effective marketing strategy under an own brand, small producers rely mainly on the marketing activities conducted by consortia*" [Antonelli and Viganò, (2000), p.47].

Bertolini and Giovannetti (2006) analysed the internationalisation of Italian SMEs, exploring their structure and the role of local institutions in an international competitive context. Their results "*have confirmed the economic role of the small producers, while highlighting the dimension of network relationships*" [Bertolini and Giovannetti, (2006), p.298]. They also underline the importance of institutions that have a strategic function "*to protect a conception of quality which includes the cultural values of local know-how*" [Bertolini and Giovannetti, (2006), p.299].

Belletti et al. (2007) studied the impact of geographical attributes on the internationalisation process of agro-food SMEs. They put forward the notion that PDOs and PGIs are important tools, but their effectiveness depends on several factors; which rely on the characteristics of the product, the production system, the individual firms' traits and the destination market (Belletti et al., 2007).

Banterle et al. (2010) develop a specific study on SMEs in food sector. They analyse 60 traditional food producers located in Belgium, Hungary and Italy. The results of the survey revealed that "most of the firms analysed show weaknesses in marketing management capabilities" [Banterle et al., (2010), p.101]. This results confirmed recent economic literature regarding SMEs (McCartan-Quinn and Carson, 2003; Spillan and Parnell, 2006; Vrontis et al., 2011b). Most firms showed difficulties in analysing the competitive environment in which they operate. The survey showed that, generally, micro sized firms perform worse than SMEs. Nevertheless, in some cases micro firms achieved high performances revealing that the firm size is not a so insuperable constraint to reach good results in marketing.

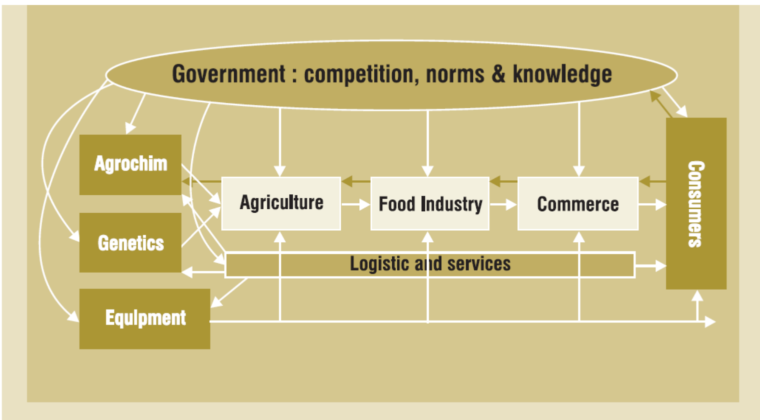
Another important study on Italian agro-food SMEs was completed by Carraresi et al. (2012). Following the theoretical model of resource-based view, they analysed the effect of SME capabilities on performance, by identifying the significant ones towards competitive advantage. They found that the most significant capabilities for SMEs are marketing and network. Concerning marketing "it has been revealed that SMEs benefit from selling their products at national level, and often limiting the area to the region" [Carraresi et al., (2012) p.205]. Regarding network capabilities, the authors describe them as having a direct positive influence on performance and an indirect effect of contributing to the firms' capacity to acquire market information. They conclude that SMEs can obtain a sustained competitive advantage by building stable chain relationships.

## 2 The Italian agro food system

### *2.1 General data*

The international food industry is generally characterised by a growing integration with the rest of the agro food system and food chain (Figure 1).

**Figure 1** The agro food system approach (see online version for colours)




*Source:* Brasili and Fanfani (2006)

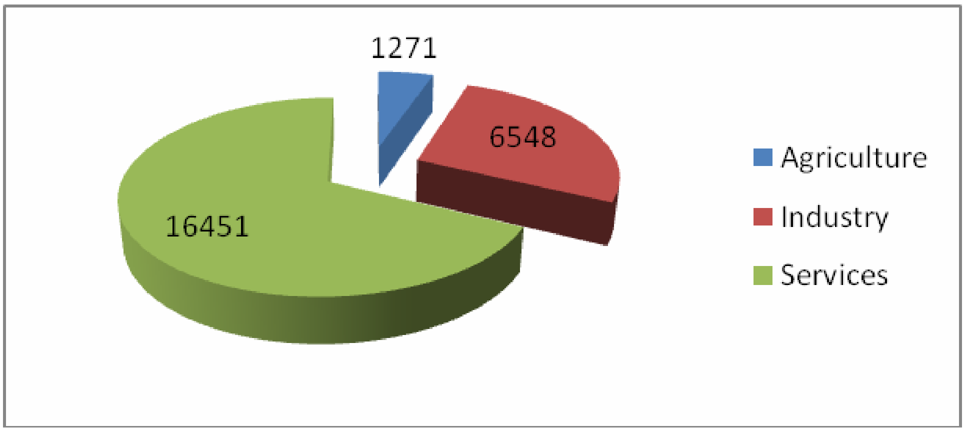
The links between agriculture, the food industry and food distribution presently create a general and integrated vision of the agro-food system (Brasili and Fanfani, 2006). The relevance of the analysis of the agro-food system and the complex relationships between its components has been particularly developed originally by the work of Malassis (1979).

The Italian food industry is a fundamental part of the country's economic system and represents an important sector of its manufacturing industry. In recent years the food industry has been affected by the wider decline and loss of competitiveness of the Italian industry. In fact, over the last decade, the food industry has closely followed the changes of the manufacturing industry, both regarding the levels of productivity and investment (Gallino, 2003; Nardozzi, 2004; Toniolo and Visco, 2004).

The food industry evidently, further carries some contrasting (anti-cyclical) characteristics from the past. This has been true not only for the regular growth of food consumption, but also for the constant and consistent development of its exports within the previous decade (Brasili and Fanfani, 2006). An evaluation of the economic value of the agro food system in Italy by INEA showed a shrinking value added (VA) at basic prices in the primary sector, including forestry and fishing, as well as shrinking of agriculture's share of value in Italy's economy.

The share of Italian agriculture to the total economy is marked by strong geographical differences: indeed, in the Centre-North, agriculture's share is 1.6% in terms of VA at basic prices and 3.9% in terms of work units, whereas these values are 3.4% and 8.6%, respectively, in the South. The structure of the economy has evolved continuously over the past decade: agriculture's share of VA to the national total dropped as did industry's share in general. Trade, transport and communications remained stable, while construction, financial services, information technology and research, the public sector and other public services grewo 21.5%. Agriculture's share in terms of total number of persons employed (expressed in work units, AWU) also proportionately decreased (Figure 2; INEA, 2011).

**Figure 2** AWU by sector ('000 units) – 2009 (see online version for colours)




*Source:* INEA (2011a)

Employment in agriculture, both male and female, continued to decline; with 47% of the total agricultural labour employed in the South, 38% in the North and 157% in the centre.

The ratio of population to agricultural labour also continues to drop over time: at the start of the century there were 2.6 work units in agriculture for every 100 inhabitants and by the end of the decade there were only 2.1.

## 2.2 Product of designated origin

Italy's products of designated origin continued to increase in number, to 210 registered PDO and PGI products (22.6% of the EU total). Most of Italy's PDO and PGI products are fruits, vegetables and cereals (nearly 40%), extra-virgin olive oil (19%), cheese (17.6%) and prepared meats (almost 16%). Neapolitan pizza has become Italy's second traditional speciality guaranteed (TSG), joining mozzarella. According to ISTAT, there were 80,600 businesses with PDO-PGI certification in 2008, 92.8% of which were farms and 5.8% processors. Over 44% of farms belong to the dairy products category, 24.5% to olive oil and nearly 20% to fruit and vegetables (Table 1).

**Table 1** Number of PDO and PGI products by regions – 2010

| *Region* | *Fruit, vegetables and cereals* | *Olive oil* | *Cheese* | *Prepared meats* | *Other products* | *Total* |
|---|---|---|---|---|---|---|
| Piedmont | 3 | - | 9 | 4 | 1 | 17 |
| Valle d'Aosta | - | - | 2 | 2 | - | 4 |
| Lombardy | 2 | 2 | 8 | 8 | - | 20 |
| Trentino-Alto Adige | 1 | 1 | - | - | 1 | 3 |
| Veneto | 2 | - | 5 | 2 | - | 9 |
| Friuli-Venezia Giulia | 16 | 2 | 7 | 6 | - | 31 |
| Liguria | - | 1 | 1 | 3 | - | 5 |
| Emilia-Romagna | 10 | 2 | 3 | 10 | 5 | 30 |
| Tuscany | 7 | 4 | 1 | 4 | 4 | 20 |
| Umbria | 2 | 1 | 1 | 2 | 1 | 7 |
| Marche | 1 | 1 | 2 | 3 | 1 | 8 |
| Lazio | 6 | 4 | 3 | 2 | 5 | 20 |
| Abruzzo | 1 | 3 | - | 1 | 2 | 7 |
| Molise | - | 1 | 1 | 1 | 2 | 5 |
| Campania | 11 | 4 | 3 | - | 2 | 20 |
| Puglia | 4 | 5 | 2 | - | 2 | 13 |
| Basilicata | 3 | - | 2 | - | 1 | 6 |
| Calabria | 2 | 3 | 1 | 4 | 1 | 11 |
| Sicily | 10 | 6 | 2 | 1 | 1 | 20 |
| Sardinia | - | 1 | 3 | - | 2 | 6 |
| Italy | 79 | 40 | 37 | 33 | 21 | 210 |

*Source:* INEA (2011a)

ISMEA production figures show a decline in production, mainly within the fruit and vegetable category; with increases for cheese and meat-based products. Olive oil made a very strong recovery after being severely affected by bad weather in mid-late 2000s. PDO-PGI production value was around 5.2 billion euro and the value of consumption on the national market was roughly around 8 billion euro. Cheese alone accounts for over half of production value, followed by processed meats. The trend in foreign demand, though positive, indicates a slowdown compared to the rather brilliant results of preceding years.

ISMEA figures on demand for PDOPGI products indicate a drop in domestic consumption and an increase in value, caused by higher average retail prices. The number of Italian quality wines increased for both PDO and PGI. There are 380 DOC and 49 DOCG wines. With a production of 15 million hectoliters of DOC-DOCG at the end of the decade they account for 35% of all wines produced in Italy. The North continues to hold first place in quality production though with 9.3 million hectoliters, or 62% of the national DOC production. Wines of controlled origin (especially reds) continue to be among Italy's best-selling exports, with a total value of nearly 1.4 billion euro.

## *2.3 Production trends and investments in the sector*

The undulating nature of agriculture and the Italian economy system in general, also affected the agricultural land market. In 2008, the price of land was on average 17,500 euro per hectare. Purchase and sale of land gradually slowed following restrictions of access to credit and the reduction in supply, though interest in land increased; a frequently observed phenomenon during crisis periods, owing to it being perceived as a 'financial safe haven'. Comparison with the general consumer price index also reveals a drop in land value expressed in real terms: the land patrimony nationwide showed a decrease of 2.1%, confirming a lowering trend that began in 2005 and brought real values down to 2000 levels. Marked differences persist in different parts of the country, with particularly high prices in lowland areas and regions of the North (from 25,000 to 40,000 euro per hectare), where the fertility of the land, infrastructure and intensive agriculture methods determine a continuing rise in prices. Above-average values also exist in some hilly areas with quality vineyards. On the other hand, land in inland mountain areas in the South is valued at around six to nine euro per hectare, owing to low fertility and poor practicable production alternatives.

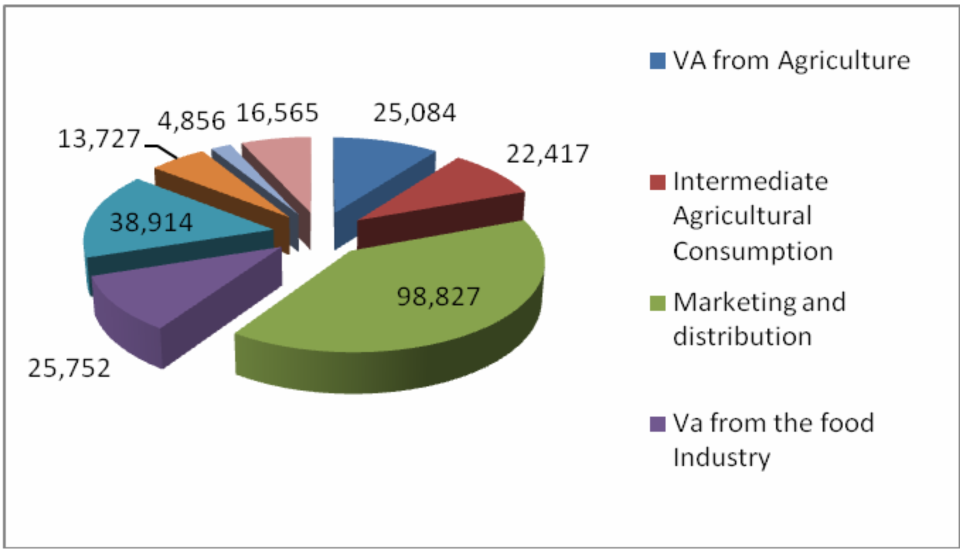
Territorial differences appear even more extreme, when one considers changes in land value, in current terms, over the decade, by farm region. The greatest increases (over 40%) are almost all concentrated in the Centre-North, where intensive and highly specialised agricultural systems, and the strong local economy, lead to high capitalisation of farmland. The rental market showed more dynamism in regions of the North, where demand often exceeds supply. The international economic crisis and consequent lack of liquidity have forced many farmers in Northern regions to increase farmland by renting. But in many areas of the Centre and the South, the crisis and the general drop in farm prices have stalled the stipulation of new contracts and kept rental conditions stable. Demand increased for land destined for biomass production and installation of photovoltaic and wind-power plants. Contrariwise, gross fixed investments in agriculture dropped in real terms, accentuating the phase of decline that began in 2005.

The share of investments in agriculture to the national total fell further, as did the ratio to value added in agriculture. Investments per worker amounted to 6,400 euro, 33% less than the national average. The percentage breakdown by type of goods shows a stronger share of investments in machinery and equipment. Capital stock in agriculture, after depreciation in real terms, dropped; while capital stock per worker increased slightly. By the end of the decade, agricultural output at basic prices, including connected services, forestry and fishing, declined in value, owing to a drop in output volume and basic prices.

## 3 The Italian agro industrial system

The agro industrial system is made up of a number of activities through which agriculture interacts with all the sectors connected to it, up and down the supply chain: from the industry inputs (fertilisers, pesticides, animal feed, energy, etc.) to the food processing, distribution and catering industries. The agro-food sector is estimated to worth some 246 billion euro (over 16.2% of GDP) at the end of the decade. The main contributions were: approximately 25 billion from agricultural value added (VA), 22 billion from intermediate consumption in agriculture, 17 billion from agro-industrial investments, 26 billion from VA in the food industry, 39 billion from VA in the catering industry and 99 billion from marketing and distribution (Figure 3).

**Figure 3** Main components of agro industrial system at basic prices (million euro) – 2009 (see online version for colours)




*Source:* INEA (2011a)

### 3.1 The Italian food industry and consumption

The food industry, including drinks and tobacco, numbered fell to around 60,000 towards the end of the decade. In 2009, employment reached 456,200 work units, with a 9.9% share of employment in the industry as a whole. 70% of labourers and approximately 77% of value added at basic prices in the sector were concentrated in the Centre-North. In 2009, production in the entire sector showed partial solidity, considering the marked drop in industry overall. Value added in the sector dropped in volume but rose in value as an effect of rising prices.

Italian families' total expenditure for food and drink, including alcohol, was approximately 142 billion euro in 2009, with total consumption dropping in volume. Expenditure for eating out (canteens, restaurants, fast food, etc.) amounted to around 71 billion euro. Average family spending for food and drinks was also lower (461 euro per month). Average family spending for food and drinks accounted for 19% of total monthly outlays, with a marked difference between the North (16.4%) and the South (24.4%).

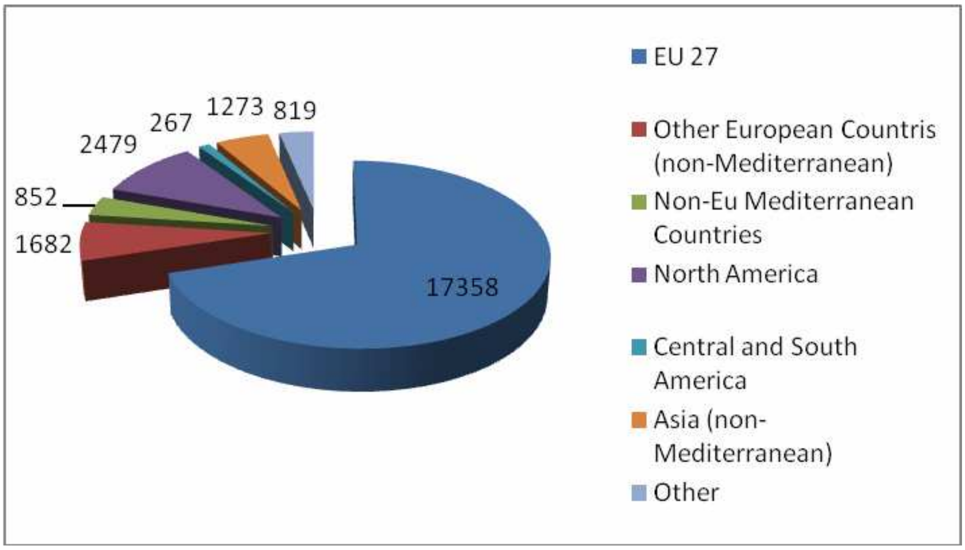
### 3.2 Foreign trade

The end of the decade was marked by a decline in value in all major macroeconomic aggregates, including total agro industrial output and trade flows. Imports and exports both slackened, but created an improvement in trade balance, albeit still negative. In terms of normalised balance, the improvement was nearly one percentage point. Trade indicators also followed the negative trend, with propensities to export and import worsening, but improvements in both the degree of self-sufficiency and the degree of trade cover.

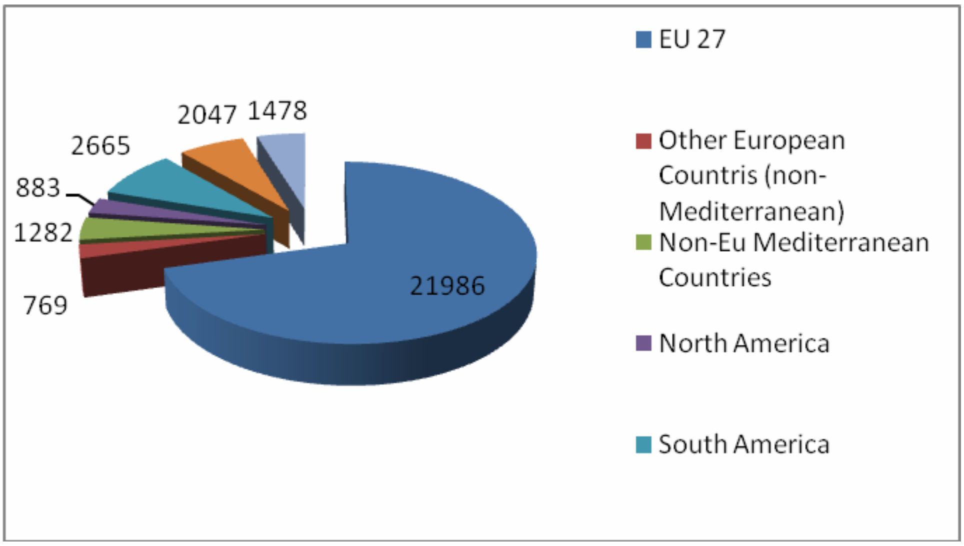
Agro-food's share to total trade showed an increase compared to the previous year, both for imports and exports. Italy's most important trading partner, the EU 27, accounts for roughly 70% of both total imports and exports. Imports also originate in South America (9%) and Asia (7%); while exports in North America (10%) and the aggregate of other non-Mediterranean countries (7%). Italy's top five supplier countries belong to the European area, and continue to be France, Germany, Spain, the Netherlands and Austria. The top five importer countries for agro-food are Germany, France, the UK, the USA and Switzerland. Italy's competitive advantage in processed products is shown by the industry's 80% share of total agro food exports and 66% of imports (Figure 4a, 4b).

Retailing of 'Made in Italy' products is the most representative of the country's agro-food and it negatively changed at the end of the decade. The most significant sales values were for fresh fruit, bottled and packaged wine, tomatoes, pasta and baked goods. The 'made in' aspect of the industry is of particular nature and value, consequent to its the special marketing/branding value (Vrontis et al., 2006, 2011a)

**Figure 4** (a) Italy's agro food exports, (b) Italy's agro food imports (see online version for colours)




(a)



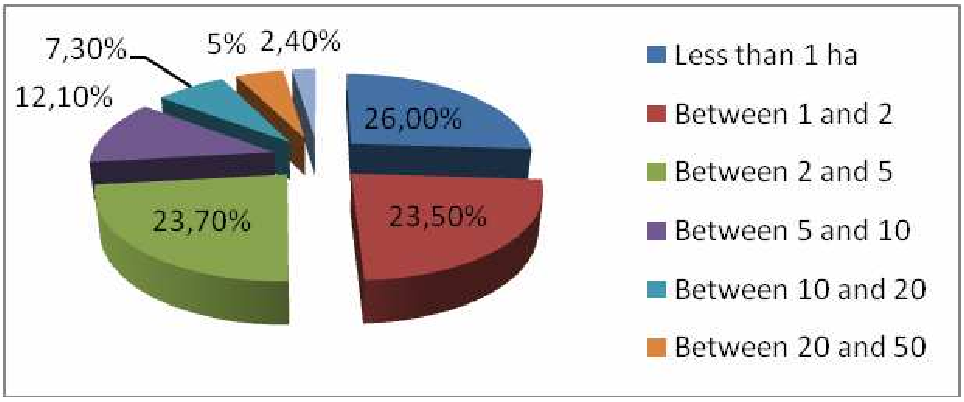

(b)

*Source:* INEA (2011a)

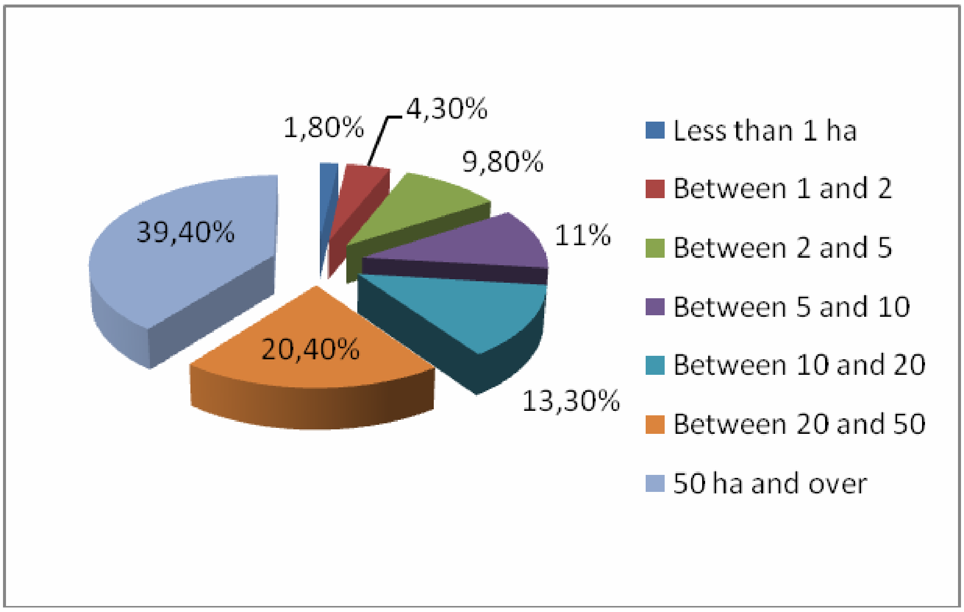
### 3.3 Italian agro firm structure

According to ISTAT figures in the most recent sample survey made on structures and production on farms (SPA), in the latter part of the decade there were just under 1.7 million farms in Italy, with an UAA of 12,744 million hectares. Average farm UAA of 7.6 hectares continues to grow, showing an increase of 3.2% owing to the gradual decline in number of farms, in the face of substantially stable UAA. Italian agriculture continues to be made up mostly of small and medium-sized farms: 49.5% of farms have less than two hectares. Nonetheless, these farms cultivate only 6.1% of total UAA, while the 2.4% of farms with over 50 hectares account for nearly 40% of total UAA (Figure 5a and 5b).

**Figure 5** (a) % distribution of firms by size, 2007, (b) % distribution of UAA by size, 2007 (see online version for colours)




(a)




(b)

*Source:* INEA (2011a)

The total workforce in terms of workdays on Italian farms was distributed as follows: 39.4% in the North, 15.9% in the Centre and 44.7% in the South. Compared to 2005, the total number of workdays dropped nationwide by 6.4%. Among various kinds of farm labour, the most considerable drop was in workdays put in by open-ended term employees (–36.2%), whereas workdays by family members on farms increased (+5.9%). Workdays by family members account for 81% of the total, with significant differences geographically. Just over half of all workdays are put in by the farmer, and 14.2% by the spouse. As for salaried labour, over half of total workdays in this category are in the South, especially among limited term workers. The share of this kind of labour to the total of salaried labour is highest in the South. Conversely in the North, open-ended labour is predominant, with the phenomenon peaking in Lombardy, where 78.5% of the total is salaried labour.

## 4 Research methodology

The methodology is based on secondary data research, literature review, a survey of 97 firms and 12 experts' interviews. The theoretical foundation was built on extended literature review, partly specific to the sector and geographical area, and partly specific to scholarly theorems and principles.

The *secondary research's* aim was to comprehend the competitive conditions in the agro food industry. It was thus deemed necessary to determine the Italian food consumption, the national foreign trade, and the agro-food firms structure. Secondary data largely stemmed from the INEA (2011a, 2011b) research and ISTAT (2012); and they provided the bulk of the information necessary towards the above. These data helped define and describe the Italian agro food system, the number of PDO-PGI existent in Italy, and to comprehend the structure and qualities of the Italian agro food competitiveness (ISMEA, 2012). It further described the Italian agro food system and its competitive conditions including number of firms, number of certified products, aggregate value, international commerce etc. (Bailey, 1994).

The *primary research* is based on a sample of 211 agro firms in Campania (Italy), about 11% of the corresponding firm population of the Campania region. The research was conducted in two interlinked but separate phases. In the first, a sample of 211 Campania agro firms was selected from AIDA (a database with company accounts, ratios, activities, ownership, management and ratios for 1,000,000 Italian companies). This part was important to collected financial data. In the second phase a survey was conducted using a structured questionnaire with two sections: strategic process and marketing decision. The questionnaire was sent, collected and analysed from July 2011 and June 2012[1]. 97 agro firms answered with an acceptably completed questionnaire. The successful response rate was 45.97% and the questionnaire was back-checked for reliability and validation purposes.

Table 2 describes the responding firms' sample. Family firms are more than non-family ones (82.47% vs 17.53%), with the majority belonging to the vegetables and cereals sector (30 firms, about 30.9%). Note that regarding family-owned firms, there are three different legal statuses: (1) company (53.75%), (2) partnership (27.5%), and (3) sole trader (18.75%).

**Table 2** Number of responding firms

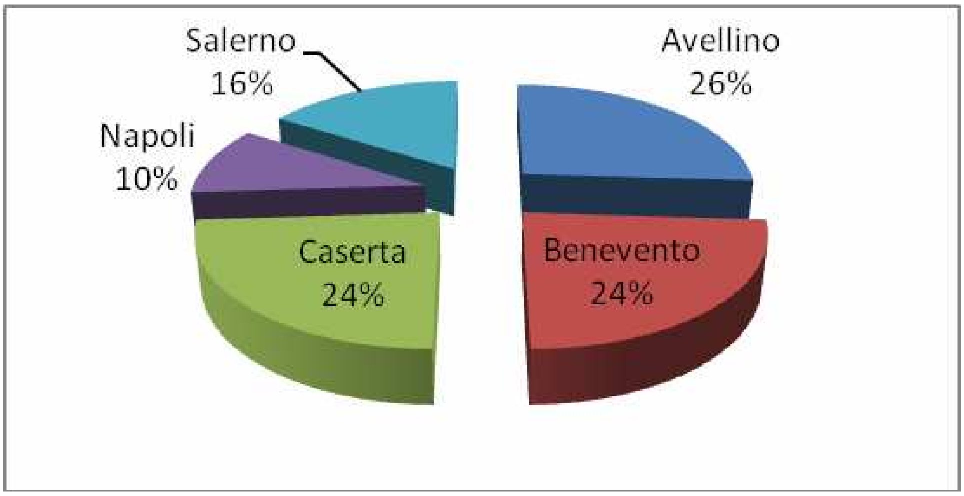
| *Main activity* | *Number of firms* | *Family firms* | *% family firms* |
|---|---|---|---|
| Vegetables and cereals | 30 | 24 | 80.00% |
| Extra virgin olive oil | 24 | 22 | 91.67% |
| Wine | 22 | 19 | 86.36% |
| Cheese | 15 | 11 | 73.33% |
| Others | 6 | 4 | 66.67% |
| Total | 97 | 80 | 82.47% |

*Source:* Research results

The sample included firms that commercialise agricultural product under their own brand, which represents about 5% of the corresponding firm population of the Campania region. The quantitative statistical analysis of data was mono and bi-variable. The sample is representative of the total population of agro food firms. 82% are production firms and only 18% are transformation firms[2]. The territorial distribution of firms shows a predominance of Avellino, Benevento and Caserta followed by Napoli and Salerno (Figure 6).

Both the theoretical basis and reasoning of the theoretical and executive implications, were consequent to further validation and refinement through an additional 12 interviews of executives, consultants and researchers specialising in the subject. This phase further allowed a deeper understanding of 'softer' and less quantifiable aspects of the subject; and a cross-referencing of perceptions on the same subject from different standpoints. The interviewees were selected based on their knowledge, experience and industry focus. The interviews lasted approximately one hour and were used as enhancers and validators of all aspects of the research; with emphasis on the components and interrelation of the findings, as well as the methodological process and reasoning steering their structuring.

**Figure 6** Territorial distribution of sample firms (see online version for colours)



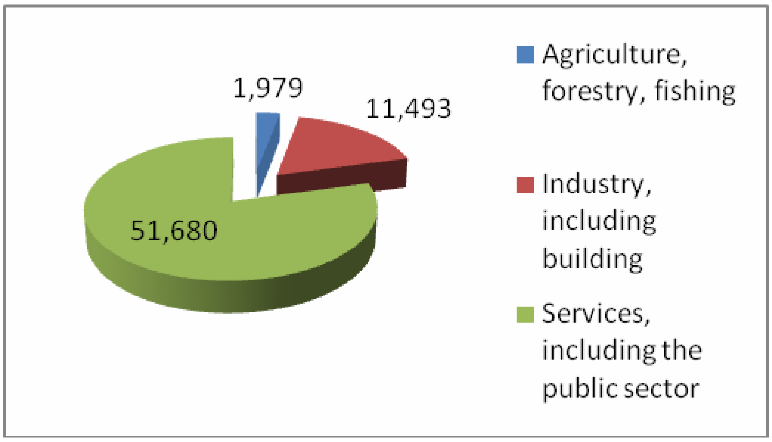

*Source:* Research results

## 5 Research results – the Campania region agro food system

### *5.1 Industry structural analysis*

In 2009, value added (VA) at basic prices in the primary sector, including forestry and fishing, dropped by 0.6% compared to 2008. Agriculture's share of value added in Campania's economy grow up by 0.2% (Figure 7).

**Figure 7** Value added at basic prices by sector (million euro) – 2009 (see online version for colours)




*Source:* INEA (2011b)

Campania's products of designated origin continued to increase in number, to 20 registered PDO and PGI products (9.5% of the Italian total). Most of Italy's PDO and PGI products are fruits, vegetables and cereals (nearly 55%), extra-virgin olive oil (20%), cheese (20%) and prepared meats (almost 5%) (Table 3).

**Table 3** Campania's PDO and PGI products – 2010

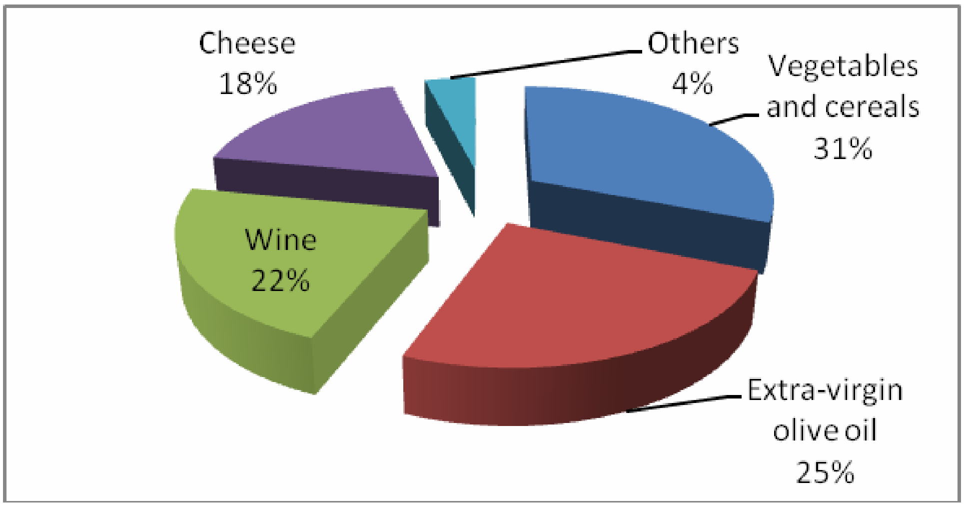
| | *PDO* | *PGI* |
|---|---|---|
| Fruits and vegetables | 4 | 7 |
| Olive oil | 4 | 0 |
| Cheese | 4 | 0 |
| Prepared meats | 0 | 1 |
| Total | 12 | 8 |

*Source:* Research results

In Campania there are also 18 DOC (4.73% of the Italian total) and 4 DOCG (8.16% of the Italian total) wines. Production of 0.288 million hectoliters of DOC-DOCG from the 2009 harvest accounts for 16% of all wines produced in region.

One of the primary structural characteristics of the regional agro food firm is its strong integration with the primary sector (Rossi, 2008). In fact, all enterprises produce at least one product of designated origin: 76% of these are PDO and 24% are PGI products. Most of Campania's PDO and PGI products of the sample firms are vegetables and cereal, extra-virgin olive oil and cheese (Figure 8). This is clearly a critical success factor of the Campania agricultural firms and one to be paid attention to in the context of a successful strategic process.

**Figure 8** PDO PGI products of sample firms (see online version for colours)




*Source:* Research results

One of the most notable results is the small size of firms. 68.3% of enterprises have a turnover of less than one million euro. Their small size is confirmed also by their number of employees who, in 72.5% of the cases, is less than ten people. The Benevento and Caserta, provinces have the highest number of micro-enterprises, while the provinces Avellino, Salerno and Naples have a stronger presence of larger firms.

Another confirmation of the small average size stems from the firms' net equity. Their balance sheets show that the average capital is about 660,000 euros, with strong differences throughout the sample (the range is from a minimum of 10,000 euro to a maximum of about 11,000,000 euro). However the balance sheets do also indicate an annual equity growth (+2.1%).

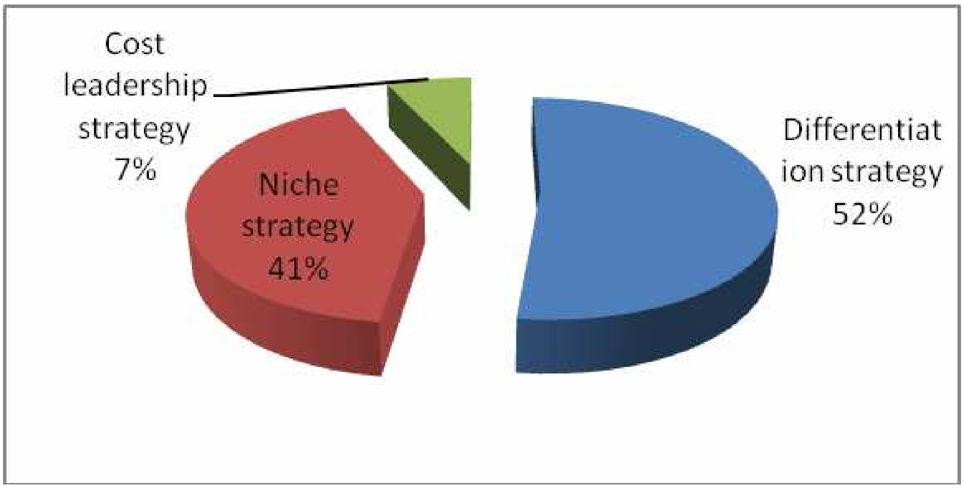
69.2% of Campania agro firms are farms that have less than two hectares. Nonetheless, these farms cultivate only 7% of total UAA, a number very close to the Italian agriculture farms. The data show that the principal problem is the low amount of equity that, in many cases, is at the minimum (legal) level (about €11,000). The undercapitalisation of Campania SMEs is similar to the wider Italian agro food system. It is nonetheless especially alarming if these data are viewed in conjunction with the investments made by companies that are already excessively indebted. This is a weakness for Campania firms that could undermine their competitiveness (Rossi et al., 2012).

The results demonstrate that the Campania agro food firms are under-capitalised. This is a problem in itself, since a large part of investments is covered through excessive debts. Almost all the firms in the sample do not respect the uniformity temporal criterion among finance sources and invest capital. The low capitalisation could influence the growth processes of firms and the under-capitalised enterprises could be merged with or acquired by international firms.

The regional agro food system is based, with few exceptions, on micro-enterprises, which are, by nature, often incapable of holding a pro-active attitude towards the changing and intensifying competitive environment. This appears in fact, to be the principal weakness of the regional agro food sector. Regarding competitive strategy approaches, the results show that a large part of the regional firms pursue differentiation strategies (52%), an important part (about 41%) pursues niche strategies and even fewer choose cost leadership strategies (Figure 9).

Though the above strategies are claimed to be followed, it is not easy to determine if they are indeed implemented, to what degree, in what manner and how successfully. Frequently, it appears that they are simply general statements of a principle or mere general directions; instead of articulated and systematic processes that need to be formulated, implemented and monitored in order to be successful. This phenomenon is a factor of failure of the Campania firms. Moreover, it is indicative of an operative and circumstantial (as opposed to strategic) approach to a changing competitive environment, that requires a different conduct to pursuit a substantial and sustainable competitive advantage (Rossi et al., 2012; Thrassou et al., 2012a).

**Figure 9** Competitive strategies of Campania agro food firms (see online version for colours)




*Source:* Research results

The analysis of organisational structure, shows that 61% of enterprises have a ‘simple structure’ (Mintzberg, 1983), characterised by a simple architecture, a minimum of organisational units, the absence of staff organisation and little and informal planning. This organisational structure presents fundamental gaps in commercial functions (particularly regarding marketing) and in financial functions.

Further concerns are raised by the bi-variable analysis. The combination of organisation structure, net equity and strategic planning give important results: the complex organisational structure is linked with an evolved legal status and also with a high net equity. These enterprises present also a strategic planning that is more formalised. This means that firms with a high turnover and a higher number of employees have higher net equity and pay more attention to the strategic processes (Rossi et al., 2012).

### 5.2 Corporate performance and financial analysis

To verify the effectiveness of strategic choices and their success, it is important to further undertake a corporate performance analysis. Strategic choices have some reflections on the corporate performance indicators (Hitt et al., 1998; Lumpkin and Dess, 1996). The first indicator to consider is the average turnover, which in 2009 was above 2.1 million. A comparison with data for 2008 shows a reduction of 1.2%.

However this data is influenced by the excessive heterogeneity of the sample. Vegetables and cereals firms have the highest turnover (about 3.1 million euros), but this group presents greater uniformity. The wine and the extra-virgin olive oil firms have an average turnover of over 1.5 million. These groups are also characterised by high heterogeneity.

The average ROI in 2009 was 3.8%, with an increase of 0.5% compared with 2008, but ROI value is far from the value of the major Italian agro-food enterprises (–1.3 percentage points). ROE is stable: from 2.0% in 2008 to 2.2% in 2009. Actually, the difference with the major national agro food enterprises is about 1.5%. The low value of these indicators is due to the low value of capital turnover (for ROI) and the high impact of debt costs on net income (for ROE). The exiguous EBIT, in fact, is further eroded by the cost of financing. The value of these indicators has a double significance: on the one hand it indicates a corporate growth, and on the other it represents a structural weakness of Campania agro-food firms (Rossi et al., 2012). Extra-virgin olive oil firms present a low value (2.05% ROI and 1.25% ROE), but the cheese enterprises are the firms that present the lowest profitability (1.43% ROI and 0.55% ROE). There is an important explanation of the low profitability of these groups: olive oil societies and cheese firms are not integrated upstream in the chain.

These data illustrate the weakness of strategic choices of a large part of the enterprises of the sample. The problem is more relevant to those enterprises that do not have formalised planning. For these firms, there is a problem of effective strategic implementation. Particularly vegetables and cereals enterprises appear incapable of implementing a proper strategic process, adequate for a changing industry and market. This problem is relevant also to wine firms largely for the same reasons (Vrontis and Thrassou, 2011). Overall, these firms do portray a tendency for strategic management, but very often they are distracted by the difficulties of a hyper-competitive sector, appear incapable of distinguishing between strategic and operative decisions, and lack the knowledge, training and education to appreciate, let alone formulate and implement, proper strategic marketing management processes.

The analysis of financial structures shows that all firms in the sample have excessive debt: in fact the capitalisation index is less than 50%, with some small differences within different groups. In this case, vegetables-cereals and extra-virgin olive oil have very similar values, with a very low level of net worth/borrowing ratio (about 48%), followed by wine firms, whose net worth/borrowing ratio is 55%, and lastly cheese firms (59%). All firms present an elevated level of debt which is reflected upon their investment decisions.

Finally, empirical analysis of investment policies show an increase of materials immobilisation (+22.1%) and a low growth of intangible immobilisation (+0.8%) for Campania firms. However, the increase of fixed assets has not interested in the same way all the companies in the sample: extra-virgin oil enterprises show little growth of immobilisation (+3.6%), because they do not control the upstream phases of the production process.

## 6 Research findings – combining primary and secondary data

The research has combined primary data with secondary ones to reach some specific findings regarding the Campania region agro food firms. These findings relate to industry, strategic, marketing and structural issues. Their interrelation and interpretation substantially and practically assist researchers and practitioners in their work at both the industry and the organisational level.

**Table 4** Top seven Campania agro food by performance indicators

| *Company* | *Industry* | *Sales growth rate* | *ROI* | *Net worth/ borrowings ratio* |
|---|---|---|---|---|
| Feudi di San Gregorio | Wine | 5.53% | 4.60% | 78,0% |
| Mastroberardino | Wine | 2.89% | 7.57% | 110,0% |
| Industria Olearia Biagio Mataluni | Oil | 12.13% | 3.33% | 61.1% |
| De Matteis Agroalimentare | Veg. and cereals | 3.74% | 4.06% | 63.21% |
| Fattorie Garofalo | Cheese | 19.13% | 1.09% | 93.76% |
| Cilento SpA | Cheese | 6.46% | 4.78% | 67.04% |
| Pastificio Luico Garofalo SpA | Veg. and cereals | 1.59% | 10.87% | 52.57% |

*Source:* Research results

The research has demonstrated various fundamental strategic problems of Campania firms, relating to competition, decision making and financial performance. However, it was also found that some firms are able to implement winning strategies, objectively measured by performance data. The single most important characteristic of these successful firms lies in their marketing approach and specifically in their ability to understand/predict market trends and consumer behavioral patterns; and to adopt appropriate and timely strategies. Specifically:

1 For these firms (Table 4), size does not appear to be a factor of success. On the contrary, proper strategic formulation and implementation processes are.

2 In terms of prescriptive conclusions, the obvious advice is to adopt proper strategic marketing processes. Beyond this and more constructively, the research recommends mergers and acquisitions as the means to growth and the achievement of proportional cost economies (scale and scope).

3 Regarding the financial aspect, this research's structural analysis found that there is low enterprises' capital and high financial exposure, which produces a double negative effect: firstly, high interest expenses erode the low operating revenue; and secondly, a vulnerability results of many local high-quality agro-food firms to acquisitions from larger international producers.

4 The research has further surfaced a deficiency regarding the degree and nature of investments. Specifically, the need was pinpointed for investment in tangible assets to be supported by investments in research and development. Investments that aim for product and process innovations; brand repositioning along a higher (consumer-perceived) quality; and market and consumer knowledge towards development of ideas, creativity, originality and consumer-focused tactics.

5 As far as product and brand design are concerned, it was found that the two need to be interlinked and developed in parallel. Specifically, Campania agro-food firms should continue to valorise their autochthones products because they are appreciated and preferred by consumers, both locally and internationally. These products have a strong cultural link with the region and this is both a practical, but also a brand advantage (Thrassou and Vrontis, 2009). For this reason it is important to 'rediscover' the values and cultural cues that identify the region, and to build a brand image that positively exploits this advantageous mental interrelation in the perception of consumers, for marketing purposes.

6 Beyond external collective action though, the agro food firms between themselves should learn to collaborate, both formally and informally. Especially in business areas such as the building of international brand image, human resource development and attraction of external support, cohesion and collaboration is vital (Vrontis et al., 2011b).

### *6.1 Further research*

The above findings nonetheless, do require further research towards greater validation and refinement on the one hand (zoom in), and exploration of the wider perspectives presented on the other (zoom out). More specifically, it is recommended that research is undertaken to investigate more accurately and in greater depth, the various aspects of the agro-businesses; but also do so for specific sub-categories (by type, size, area etc). Further research is also recommended in relation to the managerial implications (below); that is research into aspects of strategic agility, branding, inter-firm collaboration etc. specific to the agro-business and potentially again for specific sub-categories. The complexity of the subjects though, as well as the role of the human factor involved additionally calls for further research of a qualitative nature that will shed light on the less tangible, 'softer' aspects of agro-business management.

## 7 Conclusions and managerial implications

The essence of the above can be encapsulated in three fundamental guiding principles that must be applied towards achieving the desired competitiveness of the Campania agro-food enterprises:

a understand and adopt proper strategic marketing processes throughout the organisation and with a long term view

b utilise the sustainable competitive advantage of the link with the region to strengthen and refine both the product and its brand image c pursue cost efficiencies and economies of scale, be it through social support, collective actions, intra-industry networking or mergers/acquisitions.

The above are directing executives to change not simply individual processes or tactics, but the very strategy and frame of thinking of their businesses. While the research points towards drastic change, the finding is not really surprising. In fact it appears to fit well within a wider call for change by scholars, so that organisations can automatically, reflexively and innovatively adapt to an incessantly changing business and consumer environment (Doz and Kosonen, 2008; Wilson and Doz, 2011; Thrassou et al., 2012b; Chebbi et al., 2013).

The position the Campania enterprises are in therefore, is neither new nor surprising to the business world. The elements of incessant change, intense competition, lack of adaptation, financial pressure and uncertainty are the rule rather than the exception in the early 21st century (Vrontis and Thrassou, 2007). Like in most industries of most of this increasingly globalised business world, the agro food firms of Campania, Italy, will probably go through a long period of change, self-reflection and experimentation. Unavoidably some will fail and some will come out of it stronger than before.

Campania firms though, do have something positive to build on. They have a tradition, they have an already existing brand image to utilise, and perhaps more importantly: the harsh competition is largely with other regions/countries of the world and not necessarily between themselves. Individual firms therefore do not stand alone.

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## Notes

1 The firms were contacted over the latter months of 2012, with each firm contacted three times through different instruments (email, fax or phone call).

2 Production firms are the enterprises that undertake all the phases of the production process; starting with the selection of the grapes and ending with bottling the finished wine. Transformation firms are all the enterprises that do not produce the grapes themselves, but process the grapes of other producers.