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“The strategic turn of Organic Farming in Europe : a resource based approach of Organic Marketing Initiatives”

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Abstract

This paper explores the Organic farming's development potential in Europe by analysing the enterprises capacities to reach a workable structure of the supply chains, in order to market good products at reasonable prices. This study has been carried out in the framework of the OMIaRD project, which aimed to assess the impact of the Organic Marketing Initiatives on Rural Development. The results show that, after a growing phase, most of the OMIs meet strategic problems linked to their ability to face an increasing of collected, processed and marketed volumes. This strategic turn point leads them to take decisions together with their stakeholders, so as the economical and ethical goals are not questioned by the changes to be implemented.

1. Introduction : the main stake for Organic farming's development

The market for Organic Farming (OF) is growing both at the world and the European level. According to IFOAM, the production reaches 17.6 million hectares in 2002. More than 100 countries in the world are concerned by this growth³. In Europe, the total area devoted to OF was 4.35 million hectares in 2001 (i.e. 3.4 % of the total area), with a growth rate by 26 % yearly. Italy, UK and Germany are first according to the cultivated areas, as Austria, Italy, Finland and Denmark had the highest share.

In most of the European countries, consumer demand is still growing. In northern Europe, the political institutions and professional bodies provide financial support to farmers and promotion campaigns. However, several southern countries – excepted Italy - have a lower growth rate, due to weaker political support (Spain, France, Portugal). Import is often necessary to compensate this low production.

The market share for OF's products is more or less comparable in the countries : Germany, France or Finland, for example (EUROSTAF, 2002) have a market share close to 1.5 %, while Denmark is at the top with 3.5 %

According to the different sectors, OF represents the following shares (without cattering) :

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³ See a short presentation of the stakes in tropical countries in Moreau, François and Sylvander, 2004.

Table 1 : OF's market shares by sector

Sectors	Market shares (%)
Cereals	0,9
Oils seed	0,5
Olives and olive oil	4,9
Potatoes	0,8
Vegetables	1,4
Fruits	1,9
Wine	1,5
Cow milk	1,9
Beef	2,2
Mutton and goat meat	1,6
Pork meat	0,3
Poultry	0,3
Eggs	1,3

Source Hamm et Gronefeld, (2003)

In the framework of OMIaRD a Delphi study presents the expected growth by country for the next five years, which are not so weak :

Table 2 :Expected growth for the next 5 years

Country	Expected growth rate
Austria	4,6
Denmark	1,5
Germany	4,8
Switzerland	4,5
UK	11,0
Finland	8,2
France	6,1
Italy	5,5

Source : Padel S., Seymour C., Foster C. (2003)

Furthermore, this study distinguishes between several types of markets, according to their evolution stage.

Table 3 : Evolution stage of the market by country

Mature market countries	Growth market countries	Emerging market countries
Austria	Finland	Belgium
Denmark	Italy	Czech Republic
France	The Netherlands	Greece
Germany	Norway	Ireland
Switzerland	Portugal	Slovenia
UK	Sweden	Spain

Source : Padel, Seymour et Foster (2003)

There are strong evolution potentials, based mainly on the consumer demand (Hamm et Gronefeld, 2003). However, several hinders have been identified by our informants : too high price premium (91 % of respondents), availability of the products (88 % of respondents) et lack of information (84 % of respondents). This is confirmed by most of the market surveys (Zanoli, 2004). Certainly, the conversion of an household to organic consumption can reduce the budget (if cereal consumption is growing and meat consumption is going down), but the price remains anyway a structural limiting factor.

The Delphi experts mention that the high price level is mainly due to supply chain structural problems (88 % of the respondents, according to Padel, Seymour et Foster, 2003, p. 18). Thus, while public policies are still very important as strategic factor to reinforce agricultural conversion, the supply chain structure (size and types of enterprises, marketed and distributed volumes etc.) determines also a great part of the OF's future.

The main question, which will be discussed in this paper, is to assess if the enterprises are or not able to reach significant market shares in the future. Certainly, the Delphi study shows that over the last years the growth is partly based upon the fact that large firms and supermarkets entered the market. But this concerns only few specialised industries (milk, yoghurt, bread, eggs, poultry). This is significant, but the development question concerns the whole OF's product range.

Therefore, a subpart of the OMIaRD⁴ project was devoted to analyse the success factors of the Organic Marketing Initiatives, which are launched by small and medium enterprises. The aim of this communication is to present the main results of this study.

An OMI is defined as an *“organisation of actors, privately or cooperatively owned, involving participation of organic producers which aims to improve the strategic marketing position of the products by adding value to the raw product through processing or marketing”*. The OMIaRD project was based on an investigation of the success factors of those firms in order to analyse their impact on Rural Development.

The starting hypothesis was to determine whether success was more linked to external conditions (national, regional, market context) or to firms' internal competencies (including managers' competencies in networking and the OMIs characteristics).

First, an extensive survey was conducted on 196 enterprises throughout Europe (see Kristenssen, Nielsen and Hansen, 2003 ; Kristenssen and Sylvander (Eds), 2004). Then, an intensive survey was carried out on a sample of 67 OMIs selected in 35 regions during the winter 2002.

⁴ The Organic Marketing Initiatives and Rural Development project is a shared-cost research programme, funded by the Quality of Life and Management of Living Resources Programme, part of the European Union's Fifth Framework for Research and Technological Development. It was taking place from 2001 to 2003, and involved 10 partners from a total of 19 European countries, within and outside the EU. The Institute of Rural Studies at the University of Wales (Peter Midmore) coordinated the project. The other main partners are: the University of Ancona, Italy; the University of Applied Sciences Neubrandenburg, Germany; the National Institute of Agricultural Research (INRA), France; the Research Institute of Organic Agriculture (FiBL), Switzerland; the University of Helsinki, Finland; the University of Innsbruck, Austria; the Technical University of Denmark; and the University of Applied Sciences Hamburg, Germany.

2. Theoretical Background

Organisational economists of the 1950s, seeking to define the circumstances under which economic optimum and social welfare could be achieved, developed the Structure-Conduct-Performance paradigm (SCP). The aim was to identify and stamp out anti-competition practices such as the imposition of entry barriers or monopolies. For a long time the firm had remained out of the research field, although the basic postulate advanced by Coase (1937) had altered the way we view the firm, which was defined as an organism whose internal structure and relationship with the outside world change over time. During the sixties and seventies, this new conception of the firm has developed rapidly. In emphasising the importance of the firm's decision-making capacities Simon is emphasising the importance of its internal resources. Similarly, Barney and Hesterly (1996 :133) claim that the SCP paradigm gives too much weight to the firm's environment: "*However, the attractiveness of an industry cannot be evaluated independently of the unique skills and abilities that a firm brings to that industry*".

The research in management experienced the same evolution. Penrose (1963) stressed that the internal skills was a determinant factor to explain firm strategies, followed by Wernerfelt (1984) who launched the stream of a "Resource Based View " of the firm. This movement stands clearly in opposition with the porterian view (Wernerfeld, 1995), which focuses on market and competition for accounting of the firm's strategy. In a very pragmatic point of view, we chose here to follow both approaches in the same time. Organic supply chains, have usually quite a weak market power and have then to comply with external market forces. In the same time, they have specific internal skills in order to enhance their products (know how, culture, cohesion on a common project, etc.). In the framework of economics, this position ties in with that of Teece (1982), Teece and alii (1997), Winter (1987) who emphasise the specific competencies of firms. More generally, the evolutionists (Dosi et al., 1990, Dosi, 1982) attempt to reconcile the internal (inherited skills, path dependence, learning) and external (market opportunities and selection by the environment) factors of competitiveness. In accepting the assumption of procedural rationality and of *satisficing rationality*, these economists implicitly concede that while profit maximisation is important consideration must also be given to setting an objective and defining a valid way in which to achieve it.

The resource-based view is in part a reaction to strategy theories based on industrial organization economics and simple applications of microeconomics (Nelson and Winter, 1982; Rumelt, 1984). Combining economics (Demsetz, 1973; Penrose 1959), organizational theory (Selznick, 1957) and traditional business policy (Andrews 1971), the RBV suggests how, in a competitive environment firms maintain unique and sustainable positions. The problems of the RBV lie less with its propositions than with the expectations that are made of them (Hoopes, Madsen and Walker 2003). While the RBV has emphasized the importance of organizations in strategy research, it offers little guidance on the key questions : the origin and formation of resources and capabilities. In fact, many scholars argue with that the theory is essentially a tautology (Bromiley and Fleming 2002).

Currently resource-based theory lacks the insights provided by creativity and the entrepreneurial act (Barney 2001). The addition of entrepreneurial actions to resource-based theory can augment this view by suggesting alternative uses of resources that have not been previously discovered leading to heterogeneous assets and thus firm advantages (Alvarez & Barney 2002). Indeed, entrepreneurial actions can create new resources or combine existing resources in new ways (Ireland et al. 2001). By examining the intersection between entrepreneurship and the resource-based view, the impact of entrepreneurship on strategic management can be studied, when analysing the comprehensiveness of entrepreneurial actions. Entrepreneurial actions refer to individual-level actions in the creation of the firm, firm-level actions in the pursuit of innovations and market-level actions in the exploitation of opportunities presented.

Paradoxically, while the importance of resource heterogeneity has been acknowledged (Alvarez, Barney 2002), strategists have given scant attention to the process by which these resources are discovered, turned from inputs into outputs, and exploited to extract greater profits.

The principle of coherence as advocated by evolutionists is commonly applied in management and entails consistency within and between each of the firm's functions. Coherence relates to the observed behaviour of managers, which corresponds more closely to procedural rationality (Simon, 1976) than to profit maximisation.

The evolutionist approach allows to take into account the time influence on the firm's strategy by integrating the firm level and the sector level (Koenig 1996), in a dynamic perspective. It allows to combine a twofold perspective (strategic choices and environmental determinism) (Barnett and Burgelman 1996). It draws a distinction between two aspects of the concept of effectiveness: the existence of one or more objectives, the consistency of these objectives with the internal resources mobilised. In this way, we consider that the evolutionary perspective emphasizes entrepreneurial actions that create adaptability within the firm (Johnson, Van de Ven 2002; Teece 1990; Dosi and Nelson 1994)

Entrepreneurship scholars (Schumpeter, 1934; Kirzner 1973; Shane and Venkataraman, 2000) agree that entrepreneurial opportunities exist primarily because different actors have different beliefs and insight about the relative value of resources and the potential future value of these resources when they are converted from inputs into outputs (and that others actors do not). The term entrepreneur refers to any person who goes through the entrepreneurial discovery process and subsequently takes new action to seize the opportunity. Traditional research of the resource-based view of strategy has generally ignored the wide range of human choices and behaviors involved in identifying, leveraging and creating resources. Thus, the resource-based view of strategy has emphasized disembodied assets. Some scholars working within this resource-based view of strategy have highlighted the entrepreneur's role in firm strategy (Alvarez and Barney 2000, Conner 1991, Rumelt 1987). Application of the RBV shifts the emphasis in entrepreneurship research from opportunity recognition (Kirzner, 1973) to an emphasis on the entrepreneurial firm as the means of transforming homogeneous inputs into heterogeneous outputs. "Entrepreneurship is about the discovery and exploitation of profitable opportunities" (Shane and Venkataraman 2000). The integration of these two distinct perspectives is a position which occurs debates, because resource-based theory is about equilibrium and entrepreneurship research is about disequilibrium.

In a Schumpeterian view of entrepreneurship, we want to explore one aspect of new organizations – the founder’s vision and his project – in order to explore if significant variations can be found. Schumpeter (1934) described innovation as originating in the firm, where the heart is the entrepreneur. Thus, Schumpeter distinguished entrepreneurs whose actions break away – to cause disequilibrium- from imitators that bring the system back to equilibrium. In Kirzner’s perspective, the crucial element is that entrepreneurial actions stem from the perception of entrepreneurs that are some “unexploited opportunities”. This research does not only address firm performance implications of these entrepreneurial choices, we rather prefer to explore how variables (such as vision and project) affect the future adaptability of entrepreneurial firms. This paper suggests that at the heart of firm sustainability is the entrepreneurial insight.

The purpose of this paper is to describe the relationship between entrepreneurial actions, on the one hand, and the creation of firms, on the other, by applying resource-based logic to the study of OMIaRD. This paper suggests that it is through the entrepreneurial process of vision, and project that inputs become heterogeneous outputs for a sustainable and inimitable advantage.

3. Research design

This research has involved several surveys. The first one aimed to identify and characterise the OMIs through an extensive survey all over Europe, gathering as many firms as possible in all countries. We found an amount of 196 OMIs all together (Kristenssen and al., 2003). On this amount, we selected 35 regions and 81 OMIs where an intensive survey was carried on, analysing the relevant variables to explain economic and social success (Le Floch-Wadel, Couallier and Sylvander, 2003).

The OMIs characteristics

These variables apprehend the OMIs from several standpoints:

- By their legal status: "business partnership", "cooperative" and "private company".
- By the founders of the OMI: "mixed interest group", "processors", "producers" and "others".
- By the sector(s) in which the OMIs operate: "cereals", "dairy produce", "fruit and vegetables", "aromatic herbs", "meat", "multi-activities", "multi-products", and "other".
- By the date of creation of the OMI. Here, OMIs are grouped into two categories: "old-established" for OMIs that were set up before 1995 and "recent" for OMIs set up in or after 1995.
- By the activity defining the OMIs position in the industry: "production/first stage marketing", "production/processing", "production/distribution", "processing" and "other".
- By country of origin of the OMI. OMIs from eight countries are represented: Austria, Switzerland, Denmark, Germany, Finland, France, Italy and the UK.
- By the area in which the OMIs are located. Two variables are used to define the conditions in which the OMIs operate: LFA and non-LFA, and advantaged zone and disadvantaged zone. Using these two variables and these four categories, we constructed a synthetic variable having regard to the European classification and the sustainable character or otherwise of the OMI. This variable is therefore used to distribute the OMIs among three separate classes: an "disadvantaged LFA" (for OMIs in a LFA and a region classed as disadvantaged because of its external conditions; then an intermediate category for OMIs in an advantaged LFA and OMIs in a disadvantaged non-LFA.

The final category is for OMIs enjoying advantageous external conditions for their development. These are OMIs in the category "advantaged non-LFA". To answer the question as to whether there is any correlation between the success of an OMI and the conditions, we introduced the idea of a reference region. Our analysis includes OMIs in the same sectors of activity but not in LFAs. These regions will act as tests for the influence of regional context on the success or failure of OMIs (see the map, in annex 1).

Objectives and success

We have a fairly broad conception of what constitutes "success" (that here means performance). We also draw a distinction between effectiveness and efficiency. According to management science writers (Martinet, 1983; Bouquin, 1991): effectiveness is measured by the rate results / goals (when the actors' and organisation goals are fulfilled); efficiency deals with the rate results / resources (when the goals are achieved with maximum economy of resources). In this context, according to Barjolles and Sylvander (2002), we maintain the distinction between economic success (economic viability, business efficiency, etc.) and ethical success (with regard to social and environmental issues). We look at "efficiency" indirectly and qualitatively from estimates of the financial situation of the OMIs as we were unable to obtain accounts for most of the OMIs under study. This approach means that OMIs objectives should be clearly defined, keeping in mind that according to the project aims, not only strictly economic objectives will be analysed but also ethical ones.

The types of stated objectives of the OMIs are twofold, economic and ethical one :

❖ **Economic:** "economic" objectives are understood as any objective related to the OMI's functions and policies. First, two main trends stand out: some OMIs view their activity as one of development (with growth and/or increased market share as their economic objective) while others look rather to maintain their current activity (viability). The objective of profitability can be related equally well to either of these two perspectives. Illustrations of this include "*to be profitable and provide return on invested capital*"; "*to get all cost covered; to remain competitive*". Other objectives included in this category may be quoted, such as selling quality products ("*to sell quality organic livestock*"; "*to get quality and quality products*"), increasing the penetration of organic products ("*to sell organic products as cheaply as possible*"; "*to keep costs as low as possible*"; "*to achieve a fair price that reflects the true cost of organic production*").

❖ **Social and ethical:** This category includes especially social and environmental objectives. Some of these objectives overlap while others are clearly different. Allowance for the idea of proximity and the regional aspect is very important whether in terms of regional identity or of the region as an area of action. Examples include "*to maintain regional heritage*", "*to encourage local consumption*", "*to use local resources*", "*to create a local production complex*", "*to improve employment in the region*".

Social objectives naturally cover points such as consideration for employees' interests ("*to offer good wages to the staff, to allow flexible hours for women after childbearing*", "*to improve working environment*", "*to grow human capital in the business*", "*to offer long-time employment*"). In terms of producers' interests, the idea of "producer independence" is often quoted as an important objective as is "*to enhance producers' status and know-how*" and "*to help producers create an efficient network*".

Environmental objectives include the most commonly listed “*recycle energy, materials, packaging, waste*”. Then come considerations such as “*developing a local neighbourhood activity*” (restricted collection area so as to cut carbon dioxide emissions or in the interests of animal welfare during transport). “*Conservation of landscape*” for example through initiatives such as the “*Countryside Stewardship Scheme*” (UK - Countryside Stewardship Scheme programme (grant money awarded under EC2078/92) which included creation of footpaths, hedgerow restoration, pond irrigation, management of permanent pastures to encourage biodiversity) or the “*sparing use of natural resources*” (in terms of energy efficiency, one noteworthy example is a holding that seeks to use only wind power and solar energy to conduct its business).

The assessment of the effectiveness

Four levels and types of objectives have been distinguished:

- ❖ Effectiveness 4 (achievement of ethical and economic objectives)
- ❖ Effectiveness 3 (achievement of ethical objectives)
- ❖ Effectiveness 2 (achievement of economic objectives)
- ❖ Effectiveness 1 (no ethical or economic objective achieved)

The assessment of the efficiency

One part of the questionnaire used for the in-depth regional survey was entitled “Financial situation” and was designed so the efficiency of OMIs could be measured from the business accounts. Unfortunately, the response rate for this part of the questionnaire was too low (for example, more than one third of the respondents could not /were reluctant to provide information regarding the net operating profit for their OMIs for 2000) to exploit the information. After discussion in the research team, it was decided that each team would send in a qualitative appraisal of the financial situation of the OMIs selected in each country.

Three categories were suggested:

- ❖ Loss-making OMIs
- ❖ Break-even OMIs
- ❖ Profit-making OMIs

The partners’ responses came with comments allowing comparisons between countries. This qualitative assessment of the financial situation of each OMI was used to create an indicator with which to assess how successful the OMIs are.

When crossing the four levels regarding effectiveness and the three levels regarding efficiency, a synthetic indicator for success can be defined. This indicator takes into consideration both the diversity of OMIs objectives and their ability to reach a financial balance.

Table 4: The final success groups

	Loss-making	Break-even	Profit-making
Effectiveness 4		Group of Success 4	
Effectiveness 3	Group of Success 3		
Effectiveness 2		Group of Success 2	
Effectiveness 1	Group of Success 1		

Factors of success

We make assumptions about the main "factors of success" based on previous research and in order to ascertain whether these factors are correlated with "success indicators". The success factors for an OMI depend both on external and internal factors. External factors relate to the overall *institutional context*, to the *sector* (organic sector and sub-sector to which the OMI belongs) and to *specific regional context*. Internal factors relate to the OMI itself, that is, the OMI's own capacity to conduct an effective and efficient development policy.

External factors

External factors comprise the institutional ones : impacts of practice codes and official standards, joint efforts of the supply chain and public authorities, specific aids allocated by authorities to organic farming (conversion subsidies, research, certification subsidies, agri-environmental measures, etc.), efficiency of inspection and the fight against fraud, institutional support for advertising, circulation of legal information about organic farming.

External factors comprise also the sector context : the perceived quality of the product (Does the product meet consumers' expectations?), its objective quality (same criteria but measured), its image (Does the product have a powerful image, with some symbolic value for consumers? Does the product have an established past reputation?), the technology (code of practices, levels or requirements, processing, packaging) and the degree of innovation (Is it high or low?). Other factors include the market, consumption trends for the products, market equilibrium, price level, entry barriers, market size, the overall image of the sector and export potential. Lastly, sector factors relate to the market structure (size of firms, existence of industries and small craft firms, etc.), the distribution of cost and price levels by structure, the existence of close substitutes on the market, pressure from the competition and the entry of new firms.

Finally, external factors comprise (include) the regional context. These factors are tied to specific physical/agronomic resources (climate, etc.), history and specific human resources (specific skills, social structure), specific disadvantages (remoteness of markets, mountains, etc.), market access (domestic and foreign markets), availability of production factors, the current institutional regional policies in favour of organic farming and OMIs, and the image of the region (Is the region well-known with lots of visitors?).

Internal factors

We take it that an OMI is successful if it is able to set itself and achieve relevant objectives and to implement adequate policies for achieving those objectives. We confine ourselves here to hypotheses and do not deal with classical variables regarding the description of the company, which are addressed in the questionnaire itself.

The following policies are studied at the OMI level : marketing and quality policy, supply policy , processing and logistics policy, financial policy, networking and lobbying policy, organizational policy (see annex 2).

These variables define the level of effectiveness of the policies conducted by the OMI. We speak of a nominal scale as the level of effectiveness of the policies is measured by a *5-point scoring system*. Categories 1-5 represent the levels of effectiveness from lowest to highest of the OMI policies. Six policies are reviewed in the questionnaire. For each we have an overall evaluation by the interviewer of the policy in question and an evaluation of the different components and also an overall evaluation by the respondent. These variables allow us to account for the internal components of effectiveness of the OMI.

Out of the sample, 67 relevant OMIs has been kept for further data processing. Finally, out of those 67, we selected 5 enterprises which have been subject for an in depth investigation : one firm producing and marketing vegetables in UK (Growing with Nature), one processing milk into mountain cheese in Austria (BioBauern Sulzberg), one processing and marketing beef in France (BioBourgogne Viandes) and two processing and marketing cereals in Italy (Alce Nero and Terra I el Cielo)⁵. It would obviously be presumptuous to claim that this is an exhaustive analysis of the whole range of OMI success factors throughout Europe; national and regional situations vary, the history of the various countries and their farming practices have many specific features (even if many of them have long shared the same agricultural policy) and the OMIs under study are themselves varied and engaged in different sectors. However, both our definition of OMIs and the way regions and OMIs were selected, which reflect this diversity, provide a starting point from which to identify transversal explanatory phenomena.

From the outset, we proposed a series of assumptions founded on an evolutionist approach to economic and social activities and which seems consistent with a ‘resource-based management’.

In a domain where economic and social activities seem innovative and marginal, as in organic farming, data about the firms’ environments are not enough to determine either their strategies or their performances, which rely much more on their internal competencies and the necessary learning processes. Admittedly, the regional (national and international) geographical, institutional and political environment are powerful constraints, as are the market data of the different study sectors; but we observe that the vision of the instigators, their projects either strategic options and their management choices are what determine their success.

4. Results

4.1. Results of extensive survey concerning 67 OMIs in 35 european countries

Overall, we confirm that **regional context is important but not essential in explaining the success of the OMIs under study**. In particular, location in unfavourable areas does not adversely affect the OMIs as might be thought a priori. Indeed the reverse is true, because OMIs with ethical rather than economic objectives are often located in favourable areas. Conversely, market conditions (raw materials or finished products) appear to be quite important.

⁵ Although the firms have been chosen in 4 countries only, the data have been collected by all the OMIaRD teams. For a more complete analysis, see Midmore Foster and Schermer, 2004. We are very grateful for all the people in the firms and their environment who accepted to take part in those very intensive investigations.

In fact, **market conditions** in the different areas are generally favourable and OMIs are distinguished more by their capacity to implement efficient procurement policies in terms of quantity (when raw material is in short supply because of rapid average growth of the downstream market, as with fruit and vegetables or cereals) or in terms of quality (when the market is more stable and quality becomes a significant criterion). It is primarily **internal competencies** related to the policies employed that account for the success of OMIs. Capacity to **control processing and logistics** frees OMIs somewhat from the constraints and fluctuations of the upstream market allowing them to produce added value (by processing) and to cut transport and distribution costs (if logistics are carefully organised). This is particularly important in a branch handling small volumes where scale economies cannot readily be made. Both these factors have a marked influence on cost effectiveness.

Again with regard to internal policies, the required conditions for achieving ethical or economic objectives are the capacity to **manage human resources** and the capacity to **manage financial matters**. These abilities are closely **correlated to the vision and the project** defined (type of objectives set and accomplished: with ethical objectives) there is a tendency to overlook the financial aspect and favour people whereas with economic objectives the financial aspect takes precedence over the human one.

We shall draw distinctions between success factors related to national conditions, regional conditions, sector conditions, internal competencies and networks. Nevertheless, we shall present some overall results, which show different levels of importance between success factors. We will then give some results from an in-depth analysis of four case studies.

We performed an MCFA using all of the environmental variables and internal policies⁶, with OMI characteristics as passive variables. This analysis refines and clarifies our following discussion and conclusions. It should also be noticed that despite their being more variables, the explained variance is better than in the previous success/characteristics and success/environmental factor MCFAs (32% on two axes, basic inertia axis 1: 17%; axis 2: 14%).

⁶ We excluded marketing and product policies, which are not discriminatory, and the "special cases" success groups which are deviant.

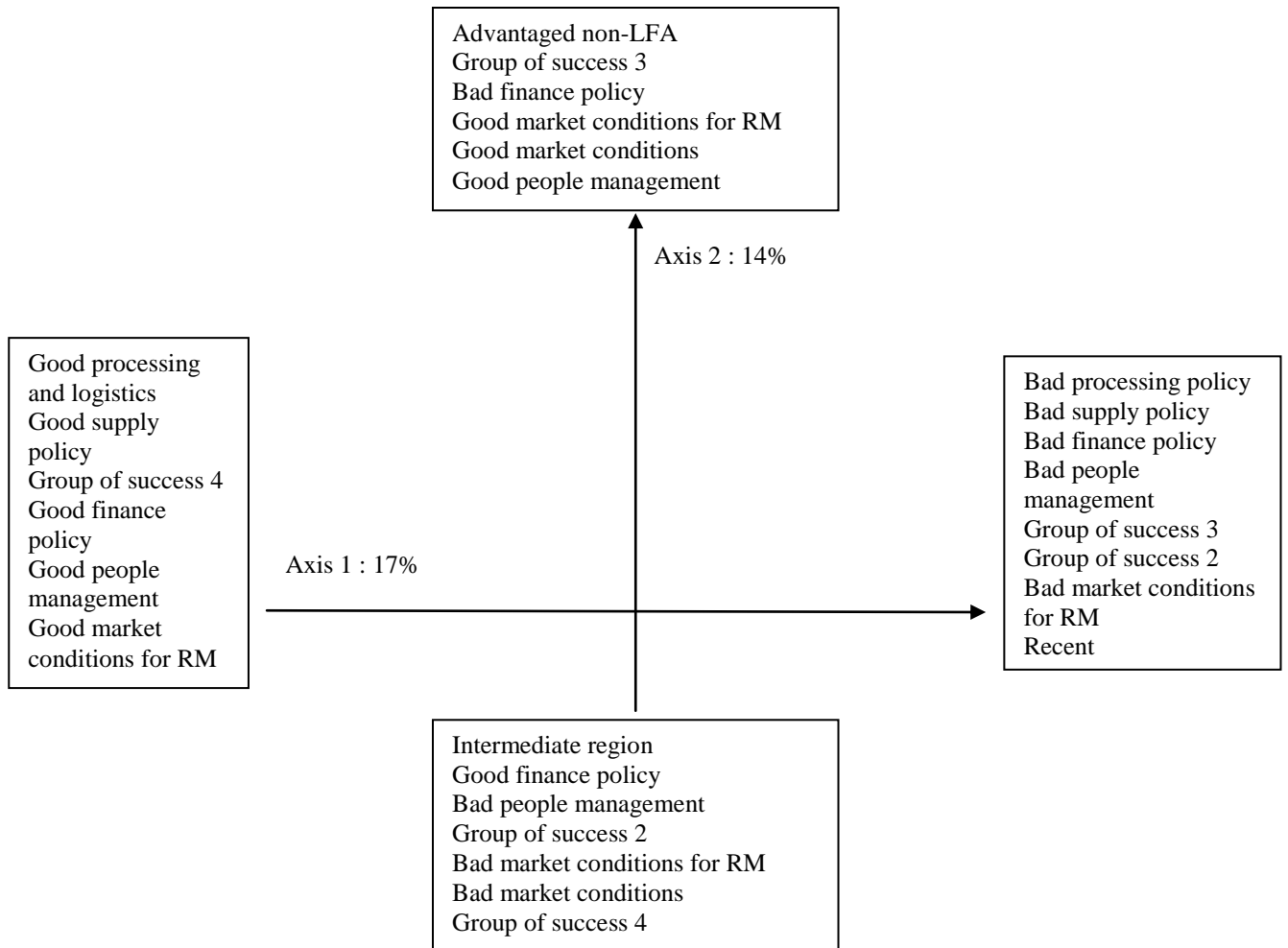


Diagram 1 : A multi-factorial analysis for OMI factors of success

- **The Axis 1** orders the success factors confirming the *discriminating role of processing and logistics policies* first of all and secondly of *supply policies* ahead of environmental variables where market conditions for raw materials feature clearly. In addition, the only OMI characteristic appearing as a passive variable is the *age* of the OMI, which asserts itself as an additional factor. This shows that the other characteristics, even if they have some influence, are comparatively less significant. This axis contrasts success group 4 (OMIs achieving their economic and ethical objectives, on the left, positive scores) and success group 3 (OMIs achieving only ethical objectives, negative scores). For OMIs in group 4, which are often in intermediate areas, success is, nonetheless, not determined by the region.

An OMI's success has little to do with its location, because it sets objectives and implements resources that are able to offset the drawbacks of difficult regions and to make the most of the assets of advantaged areas.

Even though the markets for the different sectors of Organic Farming (OF) and the countries under study have to cope with different situations, it can be seen that OF is growing throughout Europe. The prominent image of organic products with consumers means that the market can exert "marketing pull" and the technical and economic impediments to expand output help to emphasise the qualitative and quantitative problems of supply for firms. In addition, there are many factors to explain the importance of the logistics issue: low output and marketing levels, remoteness from consumer regions, freshness of many organic products that are marketed (milk, fruit and vegetables, meat), requirement for some OMIs to manage varied assortments (multi-products) and high distribution costs. Finally, processing seems a crucial point: it helps to regulate the quantities available upline, to stabilise fresh products and generate added value (as with dairy produce and meat). It is unavoidable for some products: drying aromatic herbs, drying and storing cereals, sorting and grading fruit and vegetables, etc.

After setting up OMIs, which are often founded on a philosophical and political vision of the world and sometimes on direct contact with the consumer, managers realise that the **technical management** of supply (in quality and quantity), of processing and of distribution are fundamental. Those OMIs with the competencies to identify this problem and solve it have better chances of succeeding. This is what this first factor axis shows.

- **The Axis 2** qualifies the influence of internal policies by highlighting the influence of the region, but in a way that was unexpected compared with the project's objectives. It is the advantaged non-LFAs that are home to most OMIs achieving ethical objectives while intermediate regions are home to most OMIs achieving economic objectives. This axis also shows that ethical OMIs (group 3), which are often recent business partnerships in direct contact with consumers, enjoy a good market environment and have better human resources and organisational policies than financial policies whereas "economic" OMIs (group 2) are in the opposite position. The latter are often medium-sized businesses engaged in upline activities and achieving success despite an unfavourable context, which further accentuates the importance of internal policies that manage to make up for a disadvantaged context.

This result displays the consistency of some of the OMI strategies studied. For a strategy based on ethics (under the constraint of economic equilibrium, of course) to succeed, it is **organisation, the management of human resources and the strength of the network that are decisive**. In the opposite instance, where an economic strategy is pursued, it is **good financial management** (source of funds, independence, low debt ratio) that is decisive.

On verra dans la partie suivante quel sens donner à ce résultat essentiel

4.2. Results of four case studies

This part concentrates on four case studies: *Growing with Nature* (Lancashire, UK), *Alce Nero* and *Tierra e il Cielo* (Marche, Italy), *Biobourgogne Viandes* (Bourgogne, France) and *Biobauern Sulzberg* (Vorarlberg, Austria). In all four firms, the organic farmers and growers have a decisive input and have proved successful both in terms of economic profitability (in terms of agricultural prices, growth rate or market share) and in terms of their social insertion in the region. These four cases were themselves the subject of a thorough selection process so that most of the important variables were represented: standard of development of the region (LFA or non-LFA), dominant type of activity (and reference market), size, type of producer involvement, type of distribution channels employed.

Table 5 : Schematic presentation of the four case studies

Case studies	Country	Region, locality and date set up	Number of producers involved	Product	Sales channel	Number of employees	Turnover 2001 (€000)
Growing with Nature (GwN)	United Kingdom	Lancashire, Preston, 1992	1 + 5	Vegetables	Direct sales	3	307.8
Alce Nero AN	Italy	Marche, Isola del Piano, 1977	35 (20 ..) 3000 ha	Cereal products, pasta, breakfast cereals + other purchased	Long supply chain + 4 shops	32	3350.0
La Terra e il Cielo TeC	Italy	Marche, Arcevia and Pitticchio, 1980	90	Cereal products	Long supply chain	10	1623.9
BioBourgogne Viandes BBV	France	Bourgogne, Avallon, 1994	100	Meat	Long supply chain (70 %) + 6 butchers'	4	2409.0
Bio Bauern Sulzberg BBS	Austria	Vorarlberg, Bregenzerwald region, 1996	15	Dairy : Cheeses Delivery service : meat, eggs, vegetables, yoghurt	Long supply chain + delivery service.	3 fulltime + 4 halftime	1366.2

5. The strategic turn

Our main conclusion is that beyond the countries, regions and sectors of activity, it is indeed the internal resources of firms that determine whether or not they are successful. In accounting for these four exemplary experiences, we adopt a plan that looks in turn at:

- the *motivation* of the founders, instigators and farmers or growers, which enables the vision (insight) (Filion, 1988, 1991, Brown 1986) and the project (Bréchet (1996) to overcome political, institutional and market conditions, because innovation necessarily challenges established structures;

- the *competencies* engaged and acquired by the OMI in carrying out the project (which are the basis for the day to day management of the OMI, since implementing a vision presupposes specific technical abilities);
- the strategies and cohesion necessary to implement the strategy (which both provide long-term direction and explain how and why people are motivated to follow the strategy, because even the most perfect strategy is worthless if no-one abides by it).

The emergence of cognitive approaches to understand how entrepreneurs think and make strategic decisions is showing that the right cognitive approach in the right context may represent a source of sustained competitive advantage (Barney 1991, Baron 1998). Entrepreneurial mindset is used here in reference to cognitive abilities that utilize heuristics to impart meaning to an ambiguous and fragmented situations.

Moreover, the entrepreneurs have the ability to see where products do not exist or have become valuable to consumers and where new methods of production have become feasible (Alvarez and Barney, 2002 underlie this entrepreneurial alertness).

Through the founder's vision, we discover that the entrepreneurial process is about information discovery of the market and the coordination of knowledge. .

Gaining access to a variety of resources and knowing how to leverage them creatively are two core entrepreneurial functions (Alvarez and Barney 2002).

The resource-based distinctive assets may be evolutionary. Assets depend upon past entrepreneurial decisions and these decisions made by founders and entrepreneurs may be the DNA composition of the firm. Sustainable history is thus a history (path) dependent process (Barney 1991, Nelson and Winter 1982).

1. Motivation of the founders

Initial Vision – Project dimensions

Motivation is an essential factor for OMIs instigators, actors, etc. That is why references to this topic have been included in order to illustrate how essential it was. Producers who set up OMIs are not generally motivated by simply applying models that are not of their own devising but tend rather to develop their own models both for agricultural production and for the sale of processed products and activities of general interest. In the majority of cases studied, the OMI was founded by one (or more) initiator(s) with a twofold 'vision'. First the idea of embarking on the adventure of organic farming, although it was often at first ignored and then ridiculed and finally combated by those with an interest in the mainstream system; secondly, the idea of venturing into activities outside the original activity. For farmers, this means, say, learning new jobs such as selling, processing and management. For processors, it means starting up in farming or at any rate learning about and complying with its constraints so as not to consider producers as mere suppliers of raw materials. Such social leaders, who are often the founders of OMIs, it is a matter of learning everything and using these hard-earned competencies in the service of an ideal, without betraying it, since the problems are often such that technical solutions to them entail some movement away from the initial project. In most cases, there is an original idea or a sort of long-term vision, plus a degree of determination and stubbornness to achieve the objective come hell or high water. This may well be the essential condition for an OMI to be successful.

These founders are pioneers, who are innovative, creative, good marketers, unconventional, rebellious, skilled in human relations; they think globally (economically, ethically and often spiritually) and have strong values. They are often highly educated, able to take risks, determined and obstinate people.

The objectives of the four OMIs studied are not solely economic. Often they are primarily interested in maintaining the highest possible farm prices and incomes but they also seek to contribute to rural development and employment and, lastly, almost always to achieve a global project centred on the environment, biodiversity, animal and human welfare.

- **UK – *Growing with Nature (GwN)*** has built up a direct marketing and box scheme model. The main goals are to grow and market fresh, local and high quality organic produce to local consumers, to make a fair living and obtain premium prices for local growers, to employ local people and provide fair wages to employees and to contribute to the development of a community food system – reduce food miles and packaging – and thereby contribute to local food security.

The profit motive has not been the main driving force but personal ambition is a motive: to build a legacy one can be proud of and that other businesses can be modelled after. The idea of franchising the business is also partly motivated by the potential economic spin-offs and as a way of creating succession, as it is unlikely that anyone in the immediate family will take over the business. Finally, direct relations with consumers and citizens are fostered through farm visits, which the founders feel are essential.

- **Italy – *Alce Nero (AN) and Tierra e il Cielo (Tec)*** intend to promote organic farming in agriculture, to contribute to the production and consumption of wholesome food, to protect and enhance the natural environment, to create job and business opportunities in the agricultural sector and related activities, to foster work efficiency, individual abilities, skills and creativity and encourage co-operation, to promote direct relations between producers and consumers, encourage co-operation as well as open and transparent relations among the various actors in the supply chain, guarantee fair prices at all stages of the supply chain, work to prevent and reduce social marginalisation, to put universal values into practice (truth, love, freedom, justice, peace, etc.) and to encourage networking and sharing experiences, support the development of other initiatives with the same principles and aims as the *La Tierra e il Cielo* co-operative.

France – *BioBourgogne Viandes (BBV)* is highly motivated and committed to the basic principles of organic farming. Ethical issues such as environmental policy and regional development were important, as was a decent income for producers from farming. Initially, the farmers expectations were mainly to sell organically raised livestock. The other important aspect was to be in touch with consumers. BBV saw having their own butchers' (employees or under contract) as a way of selling more products instead of selling direct from the farm.

At the same time, the founders thought that setting up their own business and developing the entire food supply chain for organic meat would be taken more seriously ; it would be the case if they operated just a small conventional line. This indicates a certain degree of professional pride. Farmers interviewed took pride in their occupation and in working in a 100 per cent organic business, which provided the opportunity to concentrate on developing their organic farming and breeding methods.

- **Austria – *Bio Bauern Sulzberg (BBS)*** is concerned by to remain full time farmers, which in the region is seen as the only way to maintain a sustainable way of protecting agricultural landscape, to switch to organic dispositional in protecting environment and the possibility to gain higher profits, providing a model for technical and economical solutions in organic milk and cheese production and marketing. Here again, the objective is to develop organic farming in a mountain region and in particular milk and cheese production. Given the specific situation of the sector, this can only be done by ensuring high milk prices for producers so as to assert the feasibility and the prestige of organic farming..

The universal aspects of the motivations are similar from one case study to the next: the founders never settle for purely economic objectives but try to situate their initiative in a broader framework.

Behind these universal ambitions lies the often exceptional personality of the founders, even if the local and historical settings are different and give rise to different styles of management, as it shall be seen. There is, on the one hand, the model of the inspired and charismatic founder who impresses all around and, on the other hand, the democratic group led by an inspiring founder. The essential feature is not so much the founders' management style but the strength and the originality of the projects (Bréchet 1996) and the competencies required to carry them out. This is clearly illustrated by the two Italian OMIs which are equally successful in the same location and the same sector with contrasting founder and management profiles

Mastering their own destinies

Ultimately, in many OMIs and here especially, it is observed that the projects implemented are highly original and innovative compared with 'conventional' activities. , the traditional strategic tools such as SWOT approach (Strengths, Weaknesses, Opportunities, Threats) are useful for describing the OMI's situation *ex post* and for making a diagnosis, but it is less relevant for imagining a strategy *ex ante*.

In practice, the founders/instigators do not deduce their long-term strategy from an analysis of the environment (particularly from market opportunities) as part of a Porterian approach, but, on the contrary, they shape their environment to suit their project (Weick, 1995).

The general scheme in the OMIs is that the founders/instigators first have a clear vision of what they want to do, they set up a business to realise their vision, they create products that did not exist before, they seek out customers and consumers who share their vision,⁷ and they finally create a new market⁸. In the same way, the strategy is not mechanically deduced from internal competencies because the mechanism described above also assumes that the OMI identifies the skills it needs and then finds some ways of procuring them, usually through a learning process, but also by recruiting or by subcontracting. When the founders/instigators are from farming backgrounds, which is not always the case in our examples, all the business functions have to be acquired in some way: processing, marketing, financial control, human resources management, etc.

This is why the managers interviewed do not like to hear about the weaknesses identified by the SWOT approach. On the contrary, they have done everything they can to forget them, so as to be able to create something new!⁹ They apply all their creativity to turning their weaknesses into strengths and the threats into opportunities,¹⁰ so as to master their own fate, thereby applying Talleyrand's principle: '*What is strategy? It's when you have no ammunition left and you keep shooting so that your enemy doesn't know.*'

⁷ Instead of 'producing what consumers want', which would be more consistent with marketing principles. Market surveys are generally somewhat ineffective in revealing expectations about radically new products and ideas (how can consumers ask for something that does not exist?).

⁸ Those phase are not necessarily in chronological order

⁹ 'Everyone knew it couldn't be done. Only the village idiot didn't know. And he went and did it.'

¹⁰ Principle applied by Maoists in revolutionary war!

Overcoming regional handicaps

The visionary approach of the OMI founders/instigators can overcome regional handicaps by relying on the specific characteristics (and resources) of the region (on historical, and geographic level). Organics, in all of this, appear to be an essential but not decisive component of what can be termed endogenous development.

Taking advantage of political and institutional conditions

Apart from European policy, the various countries featured in our case studies support organic farming in different ways. Business starting up measures is fairly uniform while support in maintaining business is only found in Austria and Italy at present, but not yet in the UK and France. Regulatory provisions also differ quite widely from one country to another, which may benefit or be detrimental to the development of organic farming (status of the agricultural holding in the UK where, contrary to France, the purchase of raw materials from outside the holding is authorised; co-operative status in Austria, which authorises the purchase of shares depending on the member's output). It is ultimately the combination of national and European support (Objective 5b areas and Leader programmes) together with the regional drive to take avail of this support and even to supplement it that produces a regional dynamic or not.

Finally, we found that the ability of being able to take advantage of political and institutional conditions seems to be closely connected to the networks of OMI members or managers and their active roles in political organizations. As being active they have personal contacts (lobby effect) and they are well informed about different support systems.

Coping with markets and competition

In engaging in production-processing-marketing activities, the managers of the OMIs under study cannot, of course, ignore the general and specific conditions prevailing on each of these global (i.e. non organic) markets and the specific state of the market and competition in the organics sector. There is a way round the first conditions, to some extent, but not the second, which requires skills that the OMIs must procure, particularly because the market has not sustained the high growth rate of previous years and new competition is coming from conventional structures, as it shall be seen.

2. Competences and Learning Curves

The OMIs studied are a perfect example of the principle of 'learning by doing' (March, 1991; Simon, 1976). Since the vision and the project take precedence over a classical strategic analysis, the founders/instigators first have to make the most of the skills already present at the outset and then acquire, in one way or another (learning, recruitment, subcontracting, alliance) those skills that are lacking. It is this process we shall study in this section.

Obviously, this skill acquisition process does not happen on its own. The necessary competencies have to be identified and their compatibility with the project evaluated. In this respect, one question invariably arises: as the OMI projects are built around a certain distance with classical strategic analyses, the managers wonder whether at each strategic turning point they should accept the rules of business management or not, given their idea of the ethics of their project. We shall examine this in Section 3 on strategy.

Whatever, it can be seen that the performance of the functions that the OMI does not initially master is no longer reflected by the 'amateurism' that could be seen in organics in the 1970s and 1980s.

Conversely, it can be seen that this still leaves the difficult decision as to whether these functions are to be performed by the OMI itself (do it) through learning or through recruitment, or whether they are to be contracted out or entrusted to an allied firm (buy it).

From vision management to operational management

Once the business has come through the start-up period, the question facing most OMIs is how to shift from vision management to operational management (the vision management appears less “professional” : unclear job definition and distribution, weak cost accounting, inefficient decision process, lack of internal communications, lack of business plan, etc.). This changeover is not seamless: ‘how to go into business without compromising one’s principles?’. Striking a compromise between the founding ideology and operational realities is apparently no easy matter, but it is often necessary and presupposes a sort of second-generation learning process.

Sourcing

In the OMIs studied, which are often but not always co-operatives, the managers must learn to distinguish between the democracy of the project (where the members are the decision makers) and the management of supplies (where members are suppliers): arbitrating between the two is not self-evident!

Processing and marketing

The choice between vision management and operational management is also expressed in terms of processing and marketing and involves farmers and managers in a learning process. At the same time, there are often difficult choices to be made between technical and marketing realities and the requirements laid down by organic farming regulations: this is a controversy between ‘purists’ and ‘pragmatists’. While farmers are used to evaluating their products by production criteria, they have to make a special effort to accept the quality constraints imposed down line, as shall be seen.

Processing and Product Quality

Organic farming entails most of the time and in most sectors to high levels of technical know-how on the part of producers.

Product Range

The relation with the final consumer generally leads OMIs to have a very wide product range so as to meet the customers’ needs. Here again, the learning process involves choosing between distribution costs and customer demand. This breadth of range coupled with a large number of customers may lead to operating losses.

Commercial Policy

The commercial learning process is of course central in an agricultural environment which has traditionally been confined to the function of producing raw materials.

Brand and Communication

The brand is a symbolic, intangible capital asset of the project and helps constitute the identity of the firm and sometimes of the region. Its value is recognised by the managers and at the same time may be weakened by lack of vigilance.

Coping with logistics

As we see in diagram1 logistic problems are among the most pressing for OMIs. It has been seen, and it is understandable, that at the outset, managers put all their energy into the product, its manufacture and the market and they often tend to overlook the logistic problems. However, for small volumes, these are often considerable (collecting costs, lack of scale economies, distribution costs, transport fleet management) and are often related to the breadth of the product range and the dispersion of the customers.

Finance policies

Thorough study of the OMIs also shows the importance of financial matters. Generally, the managers have some know-how in putting together their projects and finding possible sources of finance. The core of the financial question lies elsewhere. It is in the transition from the initial investment, which is generally well funded, and the production of the business plan (in terms of volumes and operating accounts).

Farmers are indeed used to calculating investments and so the learning process here is more about the strategic connection between the volumes aimed at, the growth sought and the operating costs, which is a comparatively new problem for OMI managers.

3. 3. Strategy and Cohesion: managing strategic turning points

The development of OMIs and of organic farming results from a reaction to intensive farming and industrialisation of the 1960–1980s in Europe. The first stage of their development was a matter of devising and developing original models against a standard background. In this context, they created new businesses, new products and new markets through the strength of their convictions, their vision and their ability to procure the right competencies.

However, it can be seen that most OMIs at some point come up against a limit in their strategies and find themselves at the crossroads, which happens, to use an air-travel metaphor, after the take-off, the climb and the cruising flight (see diagram below). This figure is very similar as the normal product life cycle theory perspective. In accordance with that terminology there come revitalization points, in which the managers need to do critical decisions and put effort to develop the concept so that a new growth period can be achieved.

This moment of truth leads them to think again about their objectives and to reformulate their strategies. This section sets out to describe this stage in the OMIs under study and to show that one of the conditions for coming through this stage successfully is that they resolve the question of internal cohesion and external cohesion, because they can only pass this way point with the support of the majority both within and outside the business.

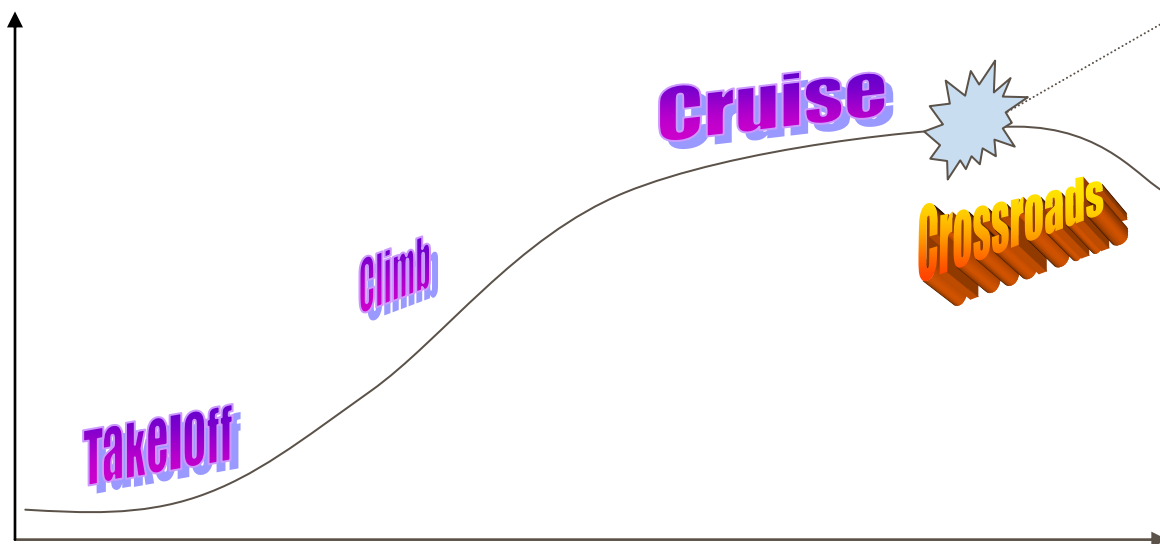


Diagram 2: The OMI strategic turning point and the air-travel metaphor

The strategic turning point

Strategies go through several types of stage: consolidation stages (as seen) and adjustment stages (or strategic turning points), where the questions asked are of the type: Should we go for more growth? Should we move into franchising? Is a niche strategy viable in the long term or should we expect the market to develop greatly? Should we invest in new products, new equipment and new markets? Should we put producer prices first? Should we join forces with conventional firms? Should we contract out our do things ourselves?

How can this turning point be negotiated? That is the question for the future.

We are dealing with a general strategic question in organic farming today. Having achieved recognition from public policy and from consumers and society at large, new entrants are coming in at all levels. The far-reaching changes of rapid development of the organic market entail many risks for those who have long been in the organic business: an economic risk if they lose their market power specific to the niche and if prices collapse; a political risk if, as it develops, the organic market becomes no more than one of many lines for diversified marketing and its universal message is weakened. On the other hand, how can it be claimed that this is a universal message if the means to generalise it are not found? The issue may come down to how to develop without losing strategic power.

Conflict, risk management and cohesion

An important component in getting past this strategic turning point is the analysis of the internal and external cohesion which will make the decisions to be taken possible or impossible, for any strategy is only valid if the majority opt to comply with it. We make a distinction between internal cohesion (which holds together the internal stakeholders of the OMI, i.e. the producers and employees) and external cohesion, which is evidence of support from external stakeholders.

Internal cohesion

Internal cohesion is a crucial condition for success at the start-up stage of an OMI. Starting up a business for the direct sale of organic vegetables, producing organic pasta, collecting, slaughtering, cutting and selling organic meat, or producing and selling organic cheese may seem inordinately risky to outside observers. The difficulty and originality of the firms, in what is often a hostile environment, generates a feeling of solidarity.

It can be seen, then, that the question of knowing how to keep the team together is a central one given the strategic challenges facing the OMIs. Changes in the scale of production and competition from new entrants are crucial threats to that cohesion.

External cohesion

Organic professionals wanted from the outset to change business principles by siding with equitable trade which involves trusting relations with all of the internal actors (as we have just seen) and with external actors, who we call “partners” or “stakeholders” to emphasise their shared interests.

However, although this idea works very well in a growing, unsaturated market (as the organic market has been for 20 years) it is seriously challenged when the upstream or downstream market is not in a good state of health and when competition may get the upper hand over co-operation and co-ordination. This type of problem arises in the relations with suppliers, customers or the region’s other organic and non-organic producers.

For the upstream side, analysis of the strength of vertical co-ordination with members or suppliers relies on analysis of the risk of opportunistic behaviour by them. This risk is increased in the seven following instances:

- Business status where all members are financially liable to the extent of their own assets,
- Co-operatives with a genuine democratic process and formal contracts,
- “Ordinary” co-operatives,
- Long-term multilateral contracts (possibly with an outside institution),
- Medium-term bilateral contracts,
- Moral undertaking,

➤ Spot market.

Relative to the downstream end and in the context of agro-food supply chains and concentrated big industrial distributors, the OMIs which work through long supply chains take a measured risk and try to build long-term partnership relations which work well as long as the market is not saturated. Otherwise, dependence on the downstream end is high, as stated previously. This is why direct contact with consumers is sought wherever possible.

In conclusion, it should be recalled here that networking activities are part of external cohesion and have therefore a strong impact on rural development. Institutional actors of all types (public, professional, union, nature protection associations, etc.) have to determine their solidarity with the OMI strategies and could be ranked as “friends”, “neutral” or “enemies”. We have seen that all managers set very great store by these stakeholders for two reasons: on the one hand, to provide support and advance the cause for which they have often long been fighting, and to secure their support for their strategies. This “political talent” is, of course, decisive for the OMIs’ future and enhances the claim that these business really are;

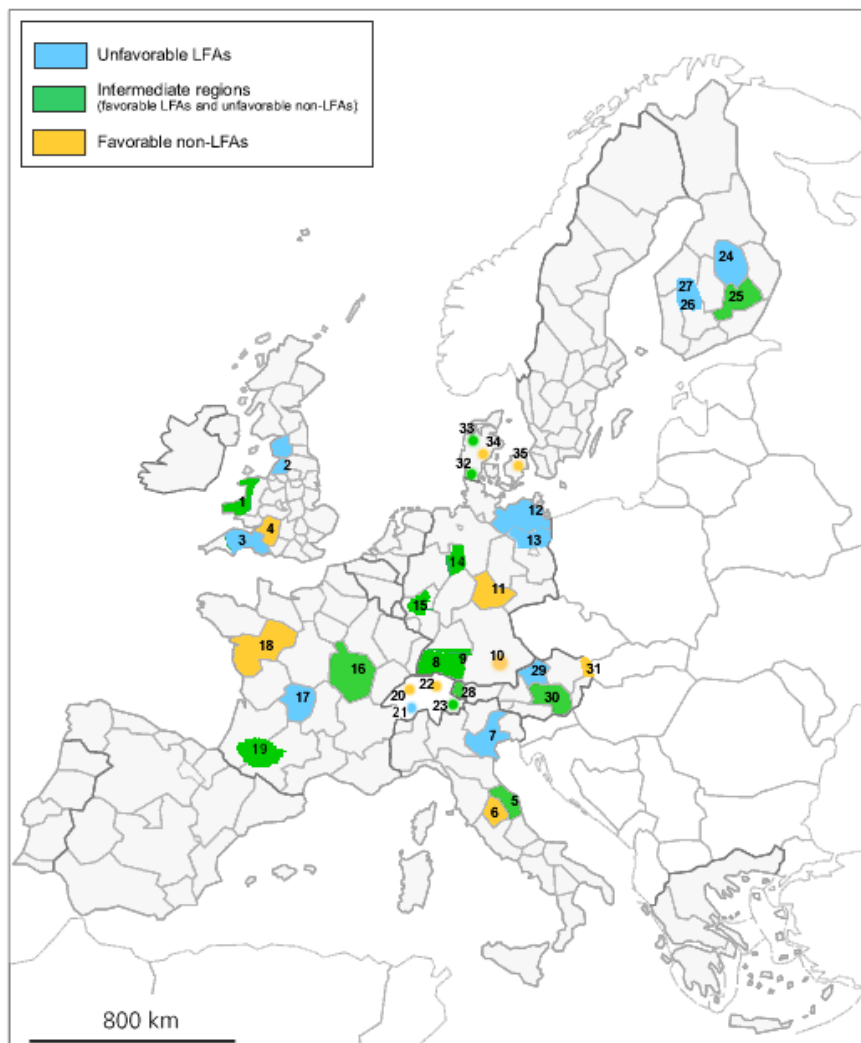
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Annex 1 :

the investigated regions and OMIs in the framework of the OMIaRD project



Annex 2 : the assessment of the OMI success

1. Internal factors

• The product policy is the firm's concrete response to demand. To define the product policy of each OMI we have made an intermediate evaluation of each of its components:

- Price.
- Intrinsic quality.
- Compliance with OF standards.
- Quality as perceived by customers and level of innovation.
- Branding and communication.

Finally, an overall evaluation of product policy is asked for taking account of all these intermediate items.

• The "marketing" policy is composed of:

- Customer satisfaction.
- OMI's bargaining power as price maker for those downline.
- Visibility of own brand even as a subcontractor.
- Conclusion of long-term contracts with the main customers.
- Brand success and reputation.
- Suitability of distribution channel and marketing policy.

Finally, an overall evaluation of the "marketing" policy is asked for taking account of all these intermediate items.

• The supply policy is composed of:

- The level of purchases from non-member producers.
- Percentage of producers' output sold to other firms.
- OMI's bargaining power as price maker for those upline.
- Conclusion of contracts with producers.
- Raw material quality.
- Correlation between product price and quality.

Finally, an overall evaluation of the "supply" policy is asked for taking account of all these intermediate items.

• The processing and logistics policy is composed of:

- Efficiency of processing and logistics policy.
- Processing and logistics problems arising from the organic/non-organic mix.
- Technical control of logistics and processing by OMI.
- Extent of sub-contracting.
- Capacity to innovate in processing operations.

• The financial policy refers to crude data such as turnover or net profit and to accounting ratios.

We work with the following variables of financial efficiency:

- Effectiveness of financial management based on crude data.
- OMI's ability to command public or private sector support.

- OMI's ability to cope with withdrawal of support.
 - OMI's financial independence.
 - Readiness of OMI members to contribute to its assets.
 - Average price premium compared with substitutes.
 - Wage level compared with competition.
 - Price paid to producers compared with competition.
 - Investment level compared with competitors.
- The organisational policy relates to skill levels, networking and management and is composed of the following items:
 - Arrangements for conflict management.
 - Outside advice for OMI.
 - Members' commitment to managing the OMI.
 - Members readiness to help finance advertising.
 - Number of managers leaving the OMI in the last three years.
 - Number of producers leaving the OMI in the last three years.
 - Number of employees leaving the OMI in the last three years.
 - Number of customers leaving the OMI in the last three years.
 - Planning and control of tasks.
 - Efficiency of cooperation from OMIs point of view.
 - Coherence of networking with the OMI's objective and overall strategy.
 - Different evaluations of knowledge in marketing, processing, procurement, finance, human resources management, networking and employee assessment.
 - Training policy for employees and members.
 - Regional unemployment level.

2. External factors

External factors are evaluated through variables defining market conditions up- and downline. These are also measured with a 5-point scoring system.

- Downline market conditions are determined on the basis of:
 - General attractiveness of the non-organic and organic market in question.
 - Growth rate of the OF market.
 - Market entry barriers.
 - Market size.
 - Market balance.

Finally, an overall evaluation of the downline market conditions is asked for taking account of all these intermediate items.

- Upline market conditions relate to:
 - Producer density in the region.
 - Growth rate of production.
 - Availability of supplies.
 - Availability of supplies from outside the region.

Finally, an overall evaluation of the upline market conditions is asked for taking account of all these intermediate items.

Initially each of the foregoing variables was given a score from 1 to 5 when the questionnaire was completed. But as there were comparatively few observations there were only a few responses in each category. It was decided therefore to divide OMIs in terms of how effective policies were into two categories: "good policies" and "bad policies". Good policies are effective ones and bad ones are ineffective.

- Scores of 1 to 3 were ranked as "bad policies".
- Scores of 4 to 5 were ranked as "good policies".

It should also be recalled how the scores were attributed. First, the interviewer attributed the scores during the interview with the OMI representative. Once all the data were collected, we revised some scores when the data did not seem to fit the scores given. The final stage was to send the scores to each partner for the scores to be confirmed or queried. *Consequently, this chapter is based on scores validated by each partner.*