

Article

Barriers to Business Model Innovation in Swedish Agriculture

Olof Sivertsson and Joakim Tell *

School of Business and Engineering, Halmstad University, CIEL, Halmstad 302 74, Sweden;

E-Mail: sivertsson.olof@gmail.com

* Author to whom correspondence should be addressed; E-Mail: Joakim.tell@hh.se;
Tel.: +46-70-765-8167.

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Abstract: Swedish agricultural companies, especially small farms, are struggling to be profitable in difficult economic times. It is a challenge for Swedish farmers to compete with imported products on prices. The agricultural industry, however, supports the view that through business model innovation, farms can increase their competitive advantage. This paper identifies and describes some of the barriers Swedish small farms encounter when they consider business model innovation. A qualitative approach is used in the study. Agriculture business consultants were interviewed. In a focus group led by the researchers, farmers discussed business model innovation, including the exogenous and endogenous barriers to such innovation. The paper concludes many barriers exist when farmers consider innovation of agricultural business models. Some barriers are caused by human factors, such as individuals' attitudes, histories, and traditions. Other barriers are more contextual in nature and relate to a particular industry or company setting. Still other barriers, such as government regulations, value chain position, and weather, are more abstract. All barriers, however, merit attention when Swedish agricultural companies develop new business models.

Keywords: barriers; business model innovation; agriculture

1. Introduction

The agricultural sector, one of the largest industrial sectors in Sweden, accounts for nine per cent of the national employment. The sector employs slightly more than 400,000 people [1]. Because of structural

developments in agriculture, Swedish farms are becoming both larger and fewer [2]. As in the rest of the western world, in Sweden farms have grown larger in order to take advantage of economies of scale.

Many companies in the Swedish agricultural sector face severe profitability problems. For some, it is a struggle to survive. Many of these problems are attributable to strong foreign competition in the pricing of agricultural products. The presence of large, multinational companies in the sector also poses a challenge for Swedish farmers. To add to their difficulties, the Swedish government has enacted laws and imposed regulations for agriculture that are much more restrictive than in many other countries.

In general, Swedish farms are family-owned and operated. Sometimes, one individual operates a farm. In months when the farm work is at its peak, the farms employ seasonal employees. Farm work is highly labour-intensive. However, such work is also characterized by the low number of people employed and by the low employee turnover in relation to the relatively high asset values, particularly of fixed assets, such as land, machinery, and buildings.

In this paper, we describe farms that can be classified as micro-small companies that produce non-technological products. According to the European Commission [3], a micro company is “*an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million*”. Under this definition, many small Swedish farms qualify as micro companies as far as the number of employees and their annual turnover. However, their balance sheets, with their high-cost fixed assets, can often exceed 2 million Euros. Moreover, agriculture in Sweden, which uses very little high-tech knowledge and very few high-tech devices, qualifies as a low technological industry.

A dominant logic has a crucial role in the agricultural sector. Prahalad and Bettis [4] (p. 490) describe this dominant logic as the “*way in which managers conceptualize the business and make critical resource allocation decisions*”. In this paper, the managers are the farmers who tend to think about their work pretty much as they always have, with only a few minor changes. That is their dominant logic. Of course, over the years there have been many farming improvements in terms of capacity, efficiency, knowledge, technology, *etc.* However, in business terms, change has been very slow in farming. One possible way of breaking this dominant, and traditional, business logic is business model innovation. According to Lambert and Davidsson [5], business model innovation has enormous potential for performance improvements provided the innovator is willing to make changes as conditions change.

1.1. Business Model Innovation

New ways of organizing businesses are often referred to as business model innovations [6]. Business models have several different purposes and functions. They may be the tools managers use to design, implement, operate, change, and control their businesses [7,8]. Baden-Fuller and Morgan [9] describe business models as blueprints for the organization. Morris *et al.* [10] (p. 727) found more than thirty definitions of business models. They propose, “*A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets*”. Magretta [11] (p. 91) proposed the following definition: “*Business models describe, as a system, how the pieces of a business fit together*”.

Lambert and Davidsson [5] identified three themes in business models studies: (1) business models and enterprise classification; (2) business models and enterprise performance; and (3) business model innovation. The third theme focuses on business model change—the motivation to change the business model and the key factors in making the change.

Osterwalder and Pigneur [12] proposed a Business Model Canvas intended for use in business model development and evaluation. The Canvas charts nine elements of business models: key partners, key activities, key resources, value propositions, customer relationships, channels, customer segments, cost structures, and revenue streams.

Many business model innovation studies focus on large companies or technology. Less attention has been paid to micro-small companies, such as farms that have low technological products (e.g., crops, grains, milk, and potatoes). Because farm products do not involve high technology, Swedish farmers are limited in making product innovations. Instead, they focus on the production itself—how to grow and market their products at lower cost.

1.2. Purpose

This study explores barriers farms, as micro-small companies, with low technological products, face in business model innovation. Lambert and Davidsson [5] observed in their review of business model studies that most studies focus on the concept of the business model. In contrast, our study enlarges that focus with its aim of increasing our understanding of business model innovation, in particular the barriers to such innovation in its early stages.

2. Literature Review

Barriers to Business Model Innovation

Different theories and concepts can be used in order to study barriers to the development of business model innovations to further our understanding of why as many as 75% of all start-ups or development approaches fails. One approach is the lean start up approach [13], where the main idea is not to follow a sequential detailed plan in the launch of a new business plan, but to get feedback early on from customers, in order to continually adjust the business plan. The importance of a dynamic nature of the business model is also brought up by Cavalcante *et al.* [14] who discuss the need to develop a process-based conceptualization of business models. These ideas could also be found in the work of Sarasvathy [15], who explain the logic and dynamic nature of causation as compared to effectuation, where the later take as a point of departure a set of means and then focus on selecting between possible effects that can be created with that set of means. To create a new firm or pursue an interesting idea, usually means that there is no blueprint to follow, here the logic of effectuation can be followed in the development of a new business model.

Amit and Zott [16], in their study of business models, identified four key elements of business model innovation: novelty, lock-in, complementarities, and efficiency. Because these key elements are essential in well-run businesses, they rarely conflict with a company's current activities. However, managers, who do not want to risk losing company value, may resist changes to the existing business model. Thus, in an internal and organizational context, business model innovation may meet some hindrances. For

example, managers may not fully understand the existing business model and therefore find its re-development challenging [17]. In order for managers to accept business model innovation, they must first understand their existing models. This is a crucial step in business model innovation.

Chesbrough [18,19] identified two types of barriers to business model innovation. The first barrier relates to a company's existing assets and the configuration of these assets. This barrier occurs when assets need to be re-configured and operational processes need to be changed. The second barrier is cognitive. Top managers, who have risen to their positions during the existing business models, may then obstruct the development of new business models. Managerial obstruction is an example of a cognitive barrier to business model development when the new models do not support current models (see also Chesbrough and Rosenbloom [20]; O'Reilly and Tushman [21]).

Chesbrough's [19] barriers may only pose problems for companies currently operating with a business model in which their products are technology-based. Govindarajan and Trimble [22] stated it is a complex investment, especially for incumbents, to commit resources to business model innovation. Companies that invest in business model innovation face new asset and resource costs and well as the risk that the existing business model will not fit with the new one, precisely because of these additional costs. Moreover, a company that shifts from one business model to another risks that its core competencies may be harmed.

For new entrants and challengers in a sector, a very effective strategy is therefore to disrupt and compete with the leader by introducing new business model innovation [7,23]. According to this theory, the awareness of this risk may pose a barrier when a company wants to introduce innovation in its business. After the introduction of a new business model, the company may find it difficult to return to the old business model. However, as Chesbrough [18] argues, companies need to change their attitude toward business model experimentation by accepting that, although some experiments fail, it is possible to learn from failures. There is a leadership gap in business model innovation.

In his study of business models for family physicians, Weber [24] identified two barriers to change: exogenous and endogenous barriers. Exogenous barriers relate to the environment and are embedded in underlying market conditions. Typically, companies cannot control or influence exogenous barriers. Established companies create endogenous barriers based on their competitive behaviour and their responses to new market entrants.

Barriers to business model innovation can be presented graphically (see Figure 1). The "type of offerings" is on the Y-axis; company size is on the X-axis. The type of offering (high-tech or low-tech) relates to a company's results from its use of technology in production. For example, a printer is classified as a high-tech offering while crops are classified as low-tech offerings. Company size refers to number of employees and the annual turnover.

In a study of business model innovation in the sustainable energy sector, Richter [25] found that managers focus too much on newly developed technology (novelty). This focus can hinder imaginative thinking, a clear necessity in business model innovation. Large, high-tech companies, on the other hand, focus too much on existing assets, technology, and cost reduction. This focus on complementarities may hinder business model innovation. Large companies with low-tech offerings have a business model structure in which the focus is on efficiency through economies of scale. This focus can be problematic for managers who want to demonstrate "*their ability to grow the business within the constraints of that model*" [18] (p. 16).

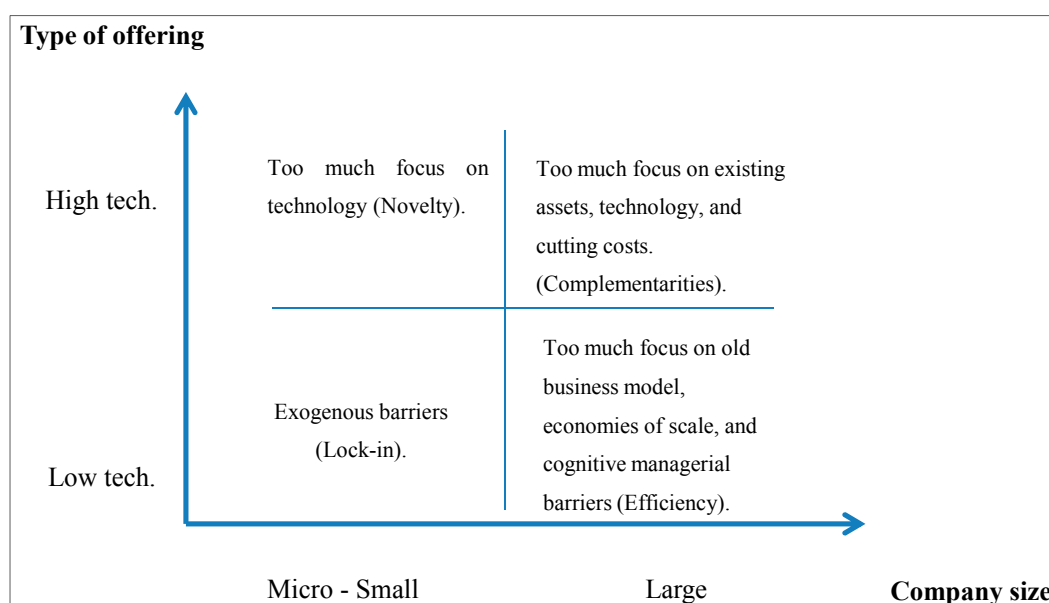


Figure 1. Barriers to business model innovations.

There have been several studies conducted to identify different barriers when it comes to agricultural innovations, for instance; why firms do not participate in local food systems [26], barriers and constraints on pro-ecological behavior [27] and waste management [28]. The barriers vary in the different studies, depending on object of study, but they cover a broad spectrum of aspects related to environmental, economic and social (situational) or subjective or perceived by managers and employees (dispositional). For micro-small companies with low-tech offerings (such as farms), the major barriers seem to be the lock-in syndrome in distribution channels and the non-controllable exogenous barriers such as regulations and the weather.

What then are the drivers for companies' choosing a sustainable strategy? In a survey sent to 1600 managing directors of medium-sized companies in 15 sectors from 28 EU countries, Nicolăescu *et al.* [29] found out that the most important drivers to companies' approaches to sustainability are: CEO 20%, Employees 15%, Shareholders and investors 12%, competitors 9%, business customers/supply chain 19%, customers 13% and government regulators 12%. This result points out that almost half of the drivers comes from inside the organization, and shows the potential of development that many organizations possesses.

3. Methodology

We collected our empirical data in interviews with business counsellors and in a focus group with farmers. We conducted the interviews with business counsellors in an effort to acquire a more comprehensive view of problems in the farming sector and a better understanding of farmers and their activities. Data for the study was collected during the spring of 2014 at a one day focus group meeting (consisting of three sessions), and then the result was, after analysis, presented for the farmers and counsellors to work further with.

We had two main goals in the focus group discussions. First, we wanted to hear the farmers discuss their problems and proposed solutions. Second, we wanted to probe more deeply into the farmers' views of their situation. The focus group environment may cause participants to express ideas and opinions

they had not thought of on an individual basis. In the past two decades of social science research, focus groups have gained a lot of attention and popularity [30]. Focus groups allow the participants and the researcher to work together to create knowledge in the specific area rather than “*uncover the one singular truth about a research question*” [31] (p. 402).

If managers (or farmers) want to overcome the barriers to business model innovation, Chesbrough [19] suggests they experiment with alternative business models by constructing maps of business models. Therefore, in the first session of the focus group we used the Business Model Canvas [12] to map the farmers’ existing business models. According to Johnson *et al.* [7], mapping an existing business model has a special and important purpose in that it describes the business model intended for innovation.

In the second session of the focus group, the farmers discussed alternative business models. In order to explore new ways of doing business, Hayashi [32] suggests an experimental approach where people are encouraged to ask the “what if” question. We took this approach in the second session in which the farmers discussed and experimented with developing business models. In the third session of the focus group, the farmers discussed barriers to their existing and proposed improved business models.

4. Background of the Farms and the Farmers’ Situation

The business counsellors describe the farmers’ situation as very difficult. One counsellor said: “*In order to make a profit, you need to be big [in terms of capacity and size] or you need to have some kind of advantage like no debt or some kind of side activity like services for others*”. One counsellor thinks few people want to be farmers because of the number of hours farmers work. Farming is also a huge investment. “*You don’t start up or take over a farm with 50,000 Swedish crowns in your pocket*”. It is extremely difficult, almost impossible, to farm on a small scale, hoping to grow larger. Farms must start large and must make a profit almost immediately. That’s why so many farmers borrow so they can grow more rapidly, expecting that economies of scale will lower costs.

Farmers with small and heavily mortgaged farms face enormous challenges. However, there are a number of small farms in Sweden, but they struggle to survive. A counsellor concluded: “*Somehow many farmers in this category manage to survive; I think this is because they do not maintain their buildings and machines*”. Another reason is the access to loans, secured by farmland that has greatly increased in value.

One of the biggest differences in agriculture today, compared to 30 years ago, is that the sector is more market driven and thereby more dependent on fluctuations in the global market. According to a counsellor, “*If a report says the weather is bad in the United States, it will directly affect farm prices here. If the weather is good for U.S. farmers, prices will fall in our market*”. The farmers are paid according to supply/demand on the agricultural market. In years past, say 30–50 years ago, production costs determined the selling price. This counsellor thinks that much of the market fluctuation is explained by the customers’ behaviour. Another counsellor thinks that 30–50 years ago, customers were willing to spend more of their total income on food than they are today.

One farming improvement, however, is that farmers today can adapt their machines better to fit their needs. Thus, although the cost of machinery and its maintenance is very high, machines have made farming more efficient. Many farmers are willing to make such heavy investments, despite the cost, because of the improvement in their work environment and productivity.

The counsellors think some farmers would be willing to change their business models if they only knew what to do. The suggestion is also that because farmers, as a group, are rather conservative, it is not really in their nature to embrace large change. In this respect, farmers themselves pose a barrier to change. A counsellor said, *“If I am to generalize, I guess I would say that farmers can sometimes be conservative. They like acting as they have always acted, Of course, there are exceptions”*.

One counsellor thinks that in 10–15 years, farms in Sweden will be much larger. And there will be fewer farms. If the small farmers don’t diversify and find some kind of competitive advantage, he thinks farming will become an avocation for them rather than a vocation. The counsellor also thinks that machines will be even more efficient. *“Today, many farmers think that they need the biggest and nicest tractor, but often they do not need such a tractor”*. The counsellor also thinks farmers will increasingly rent machinery as needed. Ownership of machines is a tradition from a bygone era when owning one’s machinery implied prestige and independence.

One of the largest problems, for the farmers is the uncertainty of the weather. As one counsellor observes, *“Farmers are very vulnerable and dependent on the weather”*. It is nearly impossible to predict harvests. *“The harvest may look great in the spring, and then it all dries up in the summer”*. Such uncertainty influences farmers as far as their willingness or motivation to risk expanding their farming operations.

5. The Farmers and Counsellors

The three farmers taking part in the focus group meeting are all men in the age around 30 years from the same region (southwest of Sweden). They all have approx. 10 years of working experience as farmers, both in their own farm, as well in other farms. The biggest part of their production consists of different types of grain, but other crops such as oilseed rape and sugar beets are also produced. The customers are all large companies which also serve as a supplier to the farms.

All of the farmers have some kind of service business that they are working with when they have time and the possibility to do so, for instance snow clearance services in the winter. All of the farmers are also offering services related to the farm activities. Both of the counsellors are working in a Swedish agricultural consulting firm. They are serving as an extra resource for the farmers and are providing them with information and advices. Both the counsellors are men in the age around 35 and have been working in the industry approximately 10 years.

6. The Focus Group

We conducted our study in the spring, which was rather unfortunate timing as that is a very busy time for farmers. The farmers wanted to participate in the focus group, but they were available only on rainy days. This limitation meant it was difficult to schedule focus group session in advance.

At last, on a day of rain, we began the focus group with a brief introduction of the agenda. Then the work of mapping their existing business models began. We gave each farmer a blank Business Model Canvas sheet. After they had mapped their existing business models, we shifted the focus to the creation of an improved business model. At this stage, we asked the farmers not to mention any barriers. Once the improved business models were created, the farmers’ task was to identify possible barriers.

7. Business Model Session

First, we briefly described the purpose and plan of the session to the farmers. When we explained the purpose was to explore their businesses rather than exploit them, they were quiet and perhaps somewhat confused. One farmer asked: “*What do you mean by explore?*” We replied that in exploring the business of farming, our goal was to look for new perspectives and ideas rather than to rework what they were already doing, only in a better way. A second farmer then commented that it is always easier to look at what you have rather than at what you don’t have. He said he heard it before—that you should exploit and explore—but the tendency is more toward exploiting. A third farmer said that it is easier to do farming activities, like checking crops one extra time, than it is to call companies to try to negotiate better deals. He also said that many farmers, especially those in animal production, tend to spend most of their time in production instead of looking at potential customers and finding new ways of selling their products.

Most of the farmers said they want to operate their farms in their own way. This “own way” can, however, become a barrier to the development of new ways of running their farms. Because a new business model might alter this situation, they think it is better stick with their existing model and use it to demonstrate, in Chesbrough’s [18] (p. 16) words, “*their ability to grow the business within the constraints of that model*”.

We used the Business Model Canvas blocks [12] as a starting point in the business model session. Our purpose in using these blocks was to help the farmers map an improved business model and to identify its barriers. Table 1 presents comments from the farmers framed by these blocks and barriers.

As Table 1 shows, some barriers to business model development are the result of human factors, such as individuals’ attitudes, histories, and, traditions. Other barriers, such as regulations, government policy, and the weather, are more contextual as they relate to the farming industry itself. All these barriers are very influential as far as the development of the agricultural sector in Sweden, especially among small farmers.

One particular aspect of the agricultural sector merits additional comment. That aspect is the enormous annual operating costs in farming in an absolute sense as well as in a relative sense when compared with annual turnover. In some instances, the cost of farm machinery may be ten times annual turnover. This cost is one of the biggest barriers to business model innovation because it may take years to recover the cost of farm buildings, land, and machinery. These assets are both key resources and daunting barriers for the delivery of the value proposition.

Nevertheless, Swedish farmers are investing in such assets in order to achieve the economies of scale that they think will mean higher operating margins. However, there are dangers with a too narrow focus on economies of scale. Richter [25], for example, as noted above, found that managers tend to focus too much on technology and cost reduction when they strive for economies of scale. As this study shows, micro-small companies, such as farms, struggle with this paradoxical problem in the same way that large companies do. Better equipment may mean greater efficiency, but the increase in efficiency must be weighed against the cost of the equipment that is, in most cases, financed by loans.

Table 1. The Business Model Canvas blocks and barriers.

Improved Business Model Canvas blocks	Barriers
1 Customer Segments More and smaller customers! Instead of being dependent on a few large crop purchasers, the farmers want to have smaller customers and use their products to create higher value.	<i>“Hard to manage the contact and the relationship with the current customers. More and smaller customers would make it even harder to handle the relationship because it is very time consuming.”</i>
2 Value Propositions High quality of products delivered from the farm all the time!	<i>“The farmers cannot always influence the quality due to external factors like the weather.”</i>
3 Value Chain Closer to new end customer!	<i>“A fixed supplier network.”</i>
4 Customer Relationships Personal contact with their customers!	<i>“Time consuming”.</i>
5 Revenue Streams The farmers want to better inform the customers of what they are paying for. This would increase the awareness of the value of their products!	<i>“The customers will not pay the full cost for locally produced products?”</i>
6 Key Resources Instead of owning their own machinery, they could buy this service!	<i>“A farmer should own the machines because farmers define themselves by what they possess and what they deliver. Without the machines, they will have an identity crisis”.</i>
7 Key Activities Pay more attention to more active selling!	<i>“The farmers cannot affect the production by adapting it to the demand. They have their land and have problems in scaling production up/down during the year if the demand increases/decreases.”</i>
8 Key Partners The farmers thought that they could cooperate more, not just in knowledge areas. “Sometimes it would have been great if you could have called another farmer to ask for assistance, This is something that we never do”!	<i>“This could be due to some kind of farmers’ pride. The feel they should be able to manage on their own.” and “The barriers in sharing resources like machines are that the demand for the resources appears at the same time for the farmers.”</i>
9 Cost Structure The farmers want to spend more money and resources on sales activities!	<i>“If more time and money were spent on resources for sales activities, production would suffer.”</i>

Another barrier we identified related to the responsibility for business model innovation that Chesbrough [18] observed in his complaint about the business model innovation leadership gap. In the Swedish agricultural sector, comprised mostly of micro-small farms, development of business models is not a priority. Instead, the focus is on daily farm operations. This was very obvious in our study. Whenever the topic of development came up, the counsellors and the farmers immediately discussed scaling up operations, becoming more efficient, and introducing production improvements. Their interest was in re-working their existing business models, not in developing new business models.

We also found a “farm mentality” and a special farming culture. The mentality and culture is inherent in farming: “This is how I/we do at this farm”. One counsellor said that when many farmers, who have

grown up on farms, take over the family farm they usually farm as their parents farmed. This is what they know and trust. This attitude is strengthened by the fact that most farmers work alone, with limited advice/help from others.

Another special factor about farms is that they are often inherited. Thus, farming is more than a way to make a living; it is a much-respected and cherished tradition. Just as the company (the farm) follows generation upon generation, so do the farm mentality and culture. One counsellor said farming is a “*lifestyle*”. Despite the rather romantic as well as very real appeal of this mentality and culture, in some sense they are barriers to business model innovation. Small farmers do not think of themselves as business people. They have a special identity, and it is not the identity of business executives, accountants, and lawyers.

8. Conclusions

Micro-small companies with low technological production, such as farms, face many barriers to business model innovation. Among these barriers are the high costs of fixed assets, the many government regulations, the weather, and traditions. In addition, small farmers who typically operate family (inherited) farms have additional barriers that are best described as the farming mentality and culture. Farmers don’t think of themselves as business managers despite having most of the same issues and concerns that all business managers have. It is a farming culture and mentality that is very resistant to change.

In this study, we used Osterwalder and Pigneur’s [12] Business Model Canvas as our point of departure that allowed us to examine the farmers’ existing business model. We also used the Canvas as a guide for the farmers’ new business models. The farmers were quite comfortable talking about their existing farming operations with the help of the Canvas (its blocks and barriers). However, the farmers had more difficulty in creating a new business model that required innovation. Their focus was nearly always on their own farms, and not on meeting customers’ needs.

Our findings are consistent with those of Amit and Zott [33] who state that meeting customers’ needs should be the main focus of any business. The customer should be at the heart of the business model. We also found that the Business Model Canvas is very useful for mapping existing business models; the Canvas provokes ideas about how other industries operate and how different business models work. This conclusion also agrees with the concept of business model replication that Aspara *et al.* [34] describe. If a company is not able to develop a new business model, it should at least consider business model replication.

One important finding in the study is the use of focus groups and dialogues in order to both sustain the businesses involved in the actual development, as well as community development with sustainability, in the next step. The focus group environment made the farmers express ideas and opinions they had not thought of on an individual basis, which gave ideas for the development of new business models. Here, universities have the potential to act as a driving force, both in education and research, which is also recognised by, for instance, Von Hauff and Nguyen [35], but poorly used by higher education institutions. We see that focus groups allow practitioners and researchers to bridge this gap and work together.

This study supports, with empirical evidence, Leschke’s [36] idea about “position in the value chain” as a very important component of business model innovation although the Business Model Canvas does

not address this component explicitly. The farmers of this study are positioned at the beginning of the value chain, but their power is very weak given how the agricultural sector is organized. Although they are the producers, they have relatively little influence on how the industry is organized. As a consequence, farmers can make few industry changes because they depend on their suppliers and their customers. Thus, even the farmers who want to create new business models are limited in what they can really accomplish. Another conclusion from the business model session, is that the development of business models are subject to continuous external forces, such as competition, legal, social or technological change and changes in customer demand [37], something that the farmers as well as the counsellors brought up, both during and after the session.

Finally, the study points to the importance of government regulations and policies in the agricultural sector. The Business Model Canvas does not address such regulations and policies either. These, too, are barriers because the farmers have little influence in these areas. Therefore, this study contributes to the research by Leschke [36] and Osterwalder and Pigneur [12] and their suggestion that government regulations and policies are key elements of business models that should be explored and evaluated.

9. Limitations

One limitation of the study is the small population of farmers, as well as counsellors studied. However, what we wanted to study, was the focus group meeting as a point of departure for creating new business models, something that we saw was possible. A suggestion for further research is to increase the number of farmers taking part in the focus group meeting, still keeping the trustful and productive dialogue in the group, to see if the number and quality of ideas can increase. Another interesting idea to further study is the role of the process leader.

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Author Contributions

The design of the study and the writing of the final version of the article was done by both authors together. Olof Sivertsson conducted the empirical gathering of data.

Conflicts of Interest

The authors declare no conflict of interest.

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