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**GVC governance structures
and firm-level upgrading trajectories**

Examples from modern sector exports

by

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The views expressed are those of the author and do not necessarily reflect the views of
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GVC governance structures and firm-level upgrading trajectories

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Overview

- GVC Governance Structures
 - Producer/Buyer (Gereffi, 1999)
 - Horizontal aspects (Humphrey and Schmitz, 2002)
 - Spectrum, from market to hierarchical (Gereffi et al., 2005)
 - Upgrading Trajectories
 - Humphrey and Schmitz (2004)
 - Structure of rewards (Gibbon 2005)
 - “Capturing the Gains” (Milberg, Barrientos)
 - Case- Studies: GVC governance and firm-level upgrading
 - Garments: Cambodia/Bangladesh
 - Cut flowers: Kenya/Ethiopia
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GVC Governance Structures

- Producer/Buyer Driven (Gereffi, 1999)
 - Governance = control as production fragments.
 - **Buyer driven:** power results from control over marketing and retailing nodes.
 - **Producer driven:** proprietary knowledge or technology at node of production

 - Clusters/value chains (Humphreys, 2002)
 - Horizontal/vertical aspects
 - Institutions, role of producer associations.

 - Refinement (Gereffi et al., 2005)
 - Informed by case studies, nature of technology
 - Dynamic, as producer capabilities change
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GVC Governance

Clusters

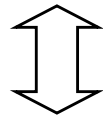
Value chains

Governance within the locality	Strong local governance characterized by close inter-firm cooperation and active private and public institutions	Not discussed; local inter-firm co-operation and government policy largely ignored
Relations with the external world	External relations not theorized, or assumed to be based on arm's length market transactions	Strong governance within the chain; international trade increasingly managed through inter-firm networks
Upgrading	Emphasis on incremental upgrading (learning by doing) and the spread of innovations through interactions within the cluster; for major upgrading initiatives, local innovation centres play an important role	Incremental upgrading made possible through learning by doing and the allocation of new tasks by the chain's lead firm; discontinuous upgrading made possible by 'organizational succession' allowing entry into more complex value chains
Key competitive challenge	Promoting collective efficiency through interactions within the cluster	Gaining access to chains and developing linkages with major customers

Source: Humphrey and Schmitz (2002)



GVC Governance Typologies

Governance structure	Complexity	Codification	Capabilities	Degree of explicit coordination, power asymmetry
Market	Low	High	High	Low
Modular	High	High	High	
Relational	High	Low	High	
Captive	High	High	Low	
Hierarchy	High	Low	Low	High

Source: Adapted from Gereffi et al. (2005)

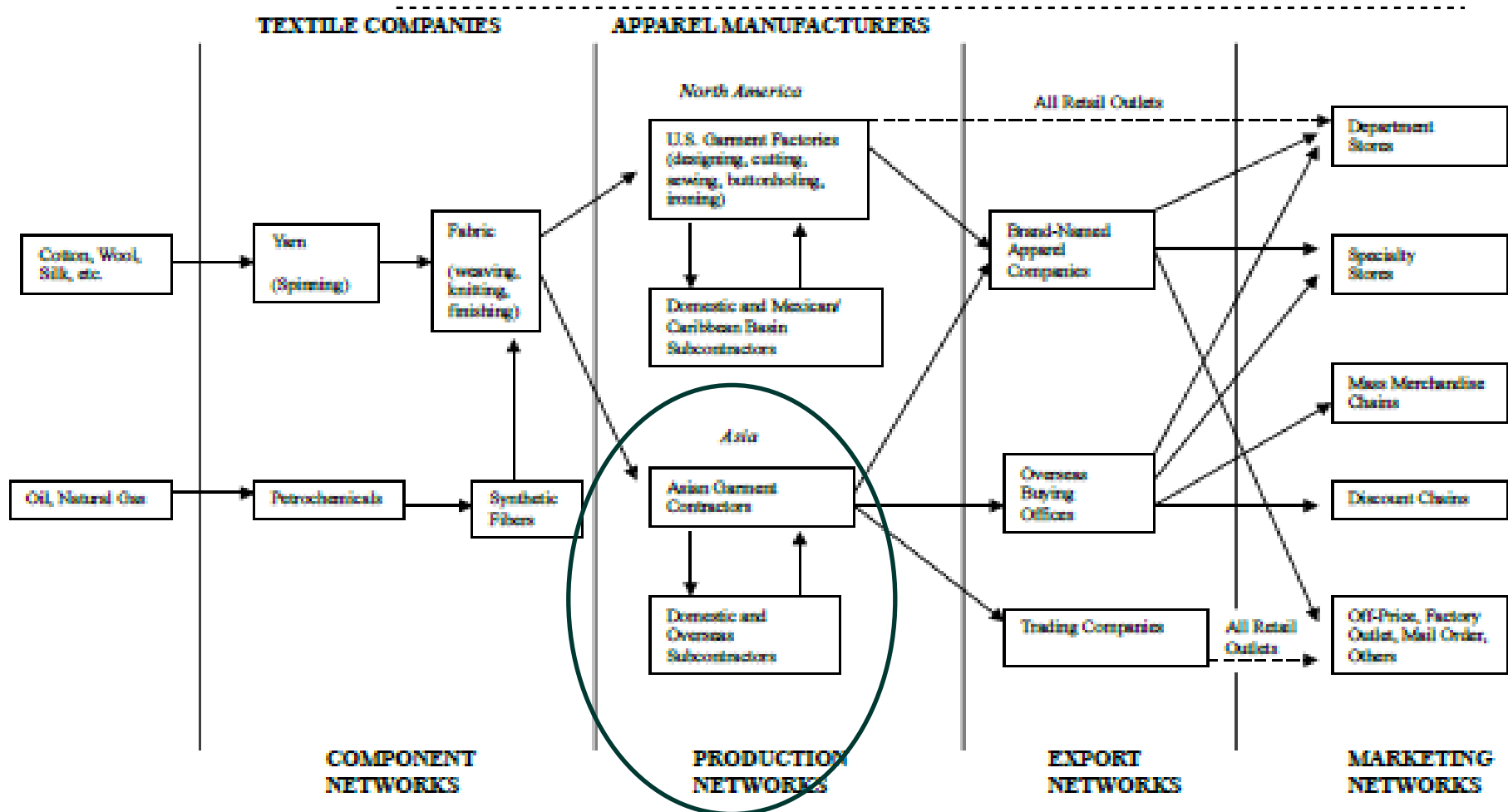


Governance Structures and Upgrading Trajectory

- Influence of GVC governance on upgrading opportunities
 - Humphrey and Schmitz (2004)
 - E.g. Product, Process, Function, Inter-Sectoral upgrading
 - Informed by experiences of East Asian NICs.
 - Given recent trends in global trade (↑ hierarchical)
 - Structure of rewards, how to release (Gibbon, 2005)
 - Terms of participation, rewards/risks (Bolwig et al, 2010)
 - Identify action points/political feasibility
 - “Capturing the Gains”: Economic and social upgrading
 - relationships between chain actors competitive and conflictual
 - GVC literature – local embeddedness
 - Functional position and ownership of firms; case-study analysis
 - Firm-level heterogeneity
 - Backward/forward linkages
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The Apparel Global Value Chain and Tiers of Suppliers in the RMG Industry



Source: Gereffi and Memedovic (2003)



Relative Position of Cambodia

Functional Capabilities	Country Examples	Description of Activities	Firm Ownership and Size	Employed
Cut, make, trim (CMT) (assembly) Supplier tier: Marginal supplier	Cambodia	Form of subcontracting: •Garment sewing plants are provided with imported inputs for assembly, most commonly in export processing zones (EPZs). •In general, companies operating on a CMT basis do not become involved in the design of the garment, just the manufacture.	FDI: 90%; Local: ~ 7%	352,000
	Vietnam		FDI: 45%; State-owned enterprise (SOE): 10%	2 million

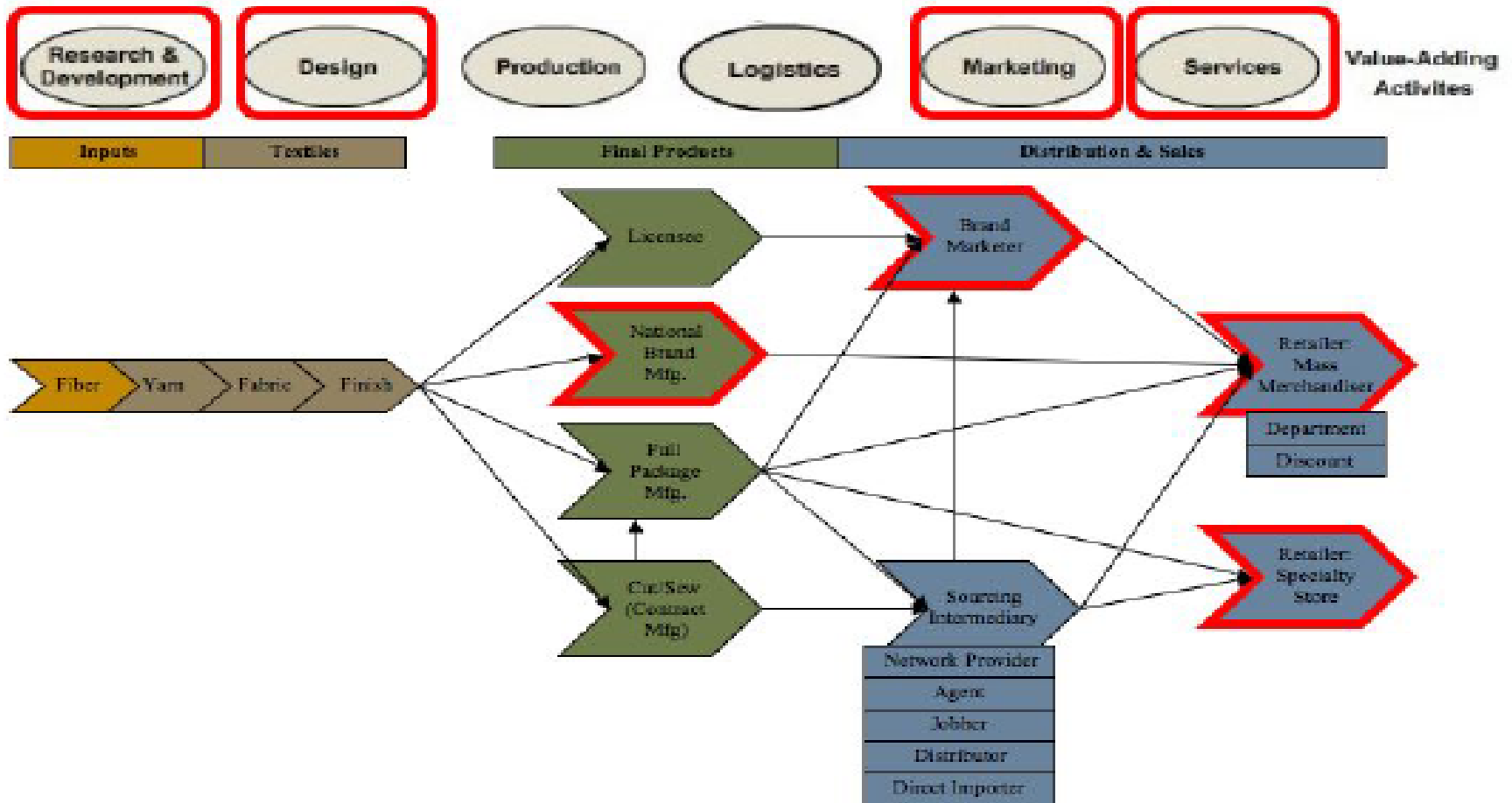


Firms Upgrading in Cambodia?

- Bernhardt (2013), part of Capturing the Gains project
 - Economic upgrading: Market share/Unit value - reflective of higher value products, and competitiveness
 - Increase in both over 2000-2010
 - Social upgrading: employment/wages
 - Increase in employment 2000-2010
 - Similarly wages (av annual wage)
 - Still amongst lowest paid in the world; no decline though
 - Brown et al. (2011) find that improvements in working conditions for firms participating in the ILO's BFC programme
 - Also higher probability of plant survival; improved productivity and exports
 - What about the industry and firm-level structure? Cambodian firms still sub-contracting, or upgrading their functional position?
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Tiers of Suppliers in the RMG VC





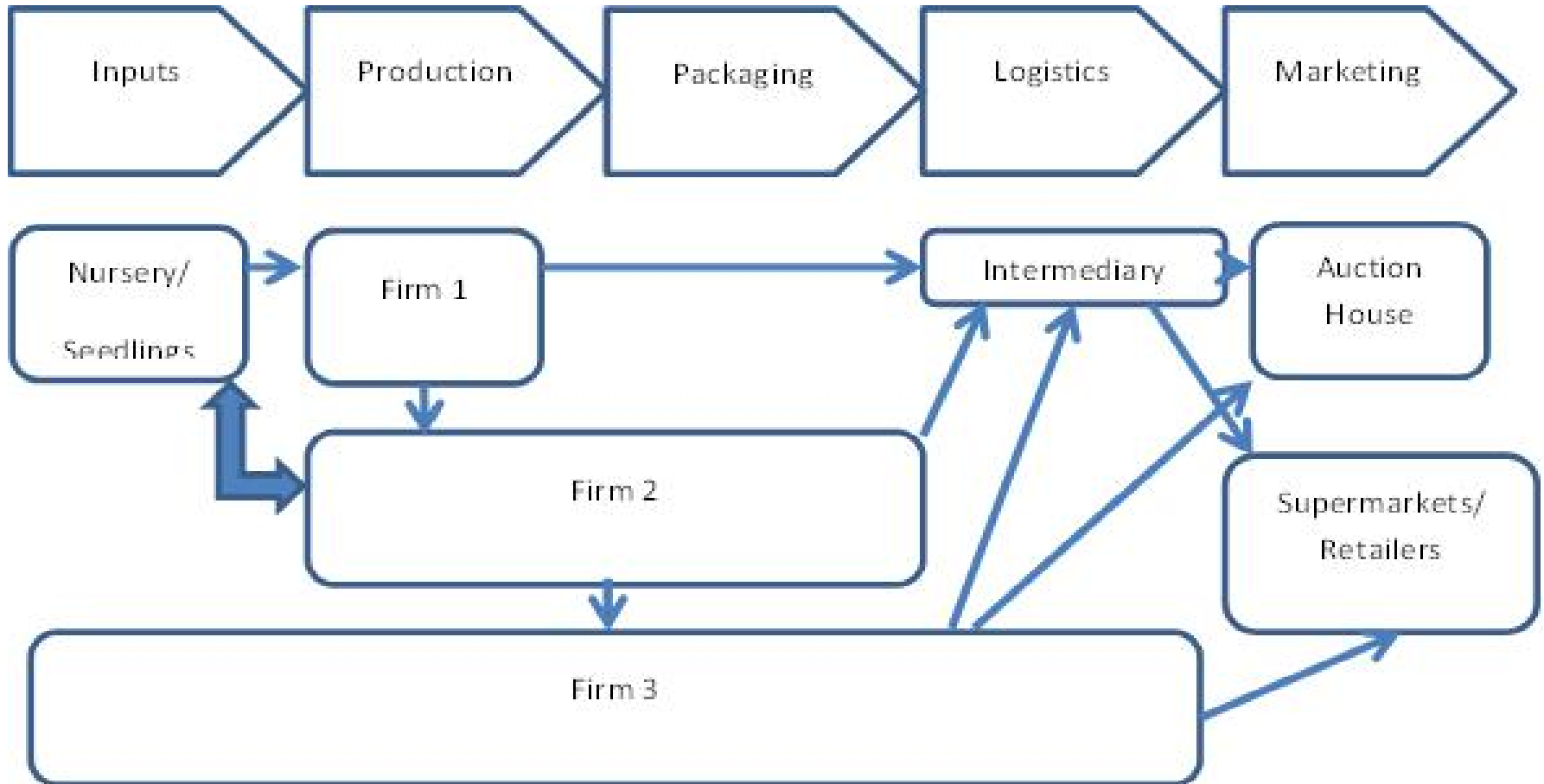
Kenya



- Horticulture sector: quasi-hierarchical GVC governance
 - Dolan et al. (1999), Dolan and Humphrey (2000), Gereffi et al. (2005)
 - Cut flower VC, as a sub-sector, less attn.
- Direct sales to buyers (e.g. supermarkets), or to Auction house
 - Easier to access auctions via an intermediary, compared to accessing retailer led supply chains .
 - What about upgrading overtime?
 - Sales through direct relationships, not through auction houses, offer a stable demand with generally higher returns for firms.
 - But greater demands placed on producers.
- Tiers of suppliers identified; different roles, capabilities



Overview of Firms





Types of Firms Identified and Functions

- Different links to buyers; different products demanded
 - 65% of cut flowers in Kenya are destined for Dutch auction houses
 - Rest to retailers, mostly the UK; Diversification in flower product overtime
- Some firms moving towards a position of a full package supplier, with responsibility for sourcing inputs
 - Rapid growth from very low levels of more varied flowers, required to create bouquets and sprays.
 - Decorative flowers, and which are more likely to be supplied by Type 1, and Type 2 firms.
- Testing for choice of marketing structure (binary outcome)
 - Age of firm: proxy for LBD; knowledge accumulated
 - matters for direct retail route



Ethiopia

- Less than a decade, became the second largest exporter from Africa
 - Surpassing all other exporters except Kenya.
 - Demonstrates the power of GVCs?
- Trigger factors for the emergence of the flower industry include:
 - natural endowment and generous government incentives for all export activities
 - EU EBA regime for LDCs?
- Cut flower industry in Ethiopia is characterized by triple role of Dutch:
 - Investment/ trade/ donor
 - But also strong state management of the process
 - engaging with hierarchical GVCs; governance capabilities



Firm-level upgrading?

- Gebreeyesus and Sonobe (2011) tested the hypothesis of whether firms mainly engaged in direct sales are:
 - more likely to produce more varieties; be larger in size; more vertically integrated, and better human and logistical capabilities
 - found them to be true.
 - But, not possible to disentangle:
 1. Whether the marked difference in the capabilities between the firms operating through the two marketing channels (direct sales, or those through an intermediary) were present upon entry (so came through FDI); or
 2. Occurred as a deliberate result of efforts to upgrade.
 - Testing for choice of marketing structure (binary outcome)
 - Ownership matters for direct sales route
 - No significant influence on auction house
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Concluding Remarks

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Newest trade literature and GVC lit share their focus on the firm
 - But GVC analysis emphasis on power, rents, control, BTEs
 - How influence contractual relations between firms to achieve development outcomes
 - Social/economic upgrading
 - » Productivity more generally
 - Functional upgrading
 - » Attracting more VC functions
 - » Upskilling over time (rather than more of same)
 - Drivers of VCs, action points and political feasibility
 - Some aspects outside of direct gov control
 - But not all - directive/facilitative approaches
 - » VC development and trade and development strategy
 - » Horizontal and vertical aspects of GVC participation
 - » Domestic value added



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The views presented here are those of the speaker, and do not necessarily represent the views of ODI or our partners.

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