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Collective action in the value chain: A conceptual framework for analysis and policy for the Australian wine industry

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Outline

1. Collective nature of the ABARE's (2006) strategic recommendations for the Australian wine industry;
2. Two dominant approaches to examine collective action in the Australian wine industry;
 - 2.1. 'Institutional Approach' (Sociology);
 - 2.2. 'Cluster Analysis' (PE; Porter, 1998 ff);
3. An alternative approach to analysing and prescribing collective action: Shared Services (Oakerson, 1999) alongside traditional public/private distinction.
4. Directions for further research.

1. ABARE's (2006) recommendations *(Australian Wine Industry: Challenges for the Future)*.

1. Increasing the average size of grower operations so as to realise *scale efficiencies*;

In local government: AMALGAMATION

2. Adjusting business models: more contracting, leasing, *share farming* and *cooperative arrangements* for better financial performance;

In local government: SHARED SERVICES

3. Increasing investment in R&D for new technologies to increase productivity;

In local government: PROFESSIONAL GOVERNANCE (leadership)

4. Improved relationships between wineries and grape growers to respond to new and emerging market trends;

In local government: COMMUNITY ENGAGEMENT

5. Maintaining an *appreciation of global and domestic supply chain dynamics* to allow growers and wineries to better position themselves;

6. Developing *value adding* that satisfies changing consumer demands.

In local government: PUBLIC VALUE

1.1. With these recommendations in mind, our questions become:

1. What do we regard as collective action?

1. What types ought to be recommended?

(Remember here that we're asking Australian farmers to engage in **scary-sounding** things: 'Share-farming'; 'Cooperative arrangements').

(Yes, Australian farming does have cooperative institutions. However, *contra* this, the wine industry is a 'rock star' industry – e.g.: Bob Oatley).

2.1. Institutional analysis - with some talk of some 'clusters' (ii)

- The 'institutional approach': Provides an account of 'wine organisations' in Australia and the links between these;
- It is useful in providing a 'snapshot' of organisations involved with the Australian wine industry;
- But this usefulness is limited for 2 reasons:
 1. Historically moribund due to the fact that many of the institutions rebrand, change functions or simply cease to exist;
 2. It does not describe the **nature of relations** between institutions (and by de facto the precise nature of these institutions themselves).
- Thus it is particularly weak if we wish to inquire into the *nature* of collective arrangements.

2.2. Cluster theory (i): Generally

- The cluster modelling approach has been widely used in studying wine industries to examine 'collective action' in the wine industry specific to a defined location;
- Offers a description of a particular type of economic activity and also posits a model, or *prescription*, for a type of economic activity (i.e.: **beyond analysis**);
- Michael Porter's (1998) central concern in putting forward his idea of economic clusters was with the idea of *competition* (**not** cooperation).

2.2. Cluster theory (ii) Analysis

- For Porter (1998) clusters have four salient features:
 1. boundaries that are not determined by geographic or political considerations but 'by the **linkages and complementarities across industries and institutions** that are most important to competition';
 2. 'clusters that rarely conform to standard industrial classification systems, which fail to **capture many important actors and relationships in competition**';
 3. 'clusters promote both competition and cooperation';
 4. 'positive externalities' are generated, including improved coordinative capacity and trust.

2.2. Cluster theory (iii): Prescriptions:

Four recommendations can be distilled from Porter (1998):

1. Clusters suggest ‘a new agenda of collective action in the private sector’ [where] executives' long-term interests would be better served by working to promote a higher plane of competition’;
2. ‘Governments – both national and local – have new roles to play’;
3. Cluster formation and longevity are best achieved through pursuing what is unique to every particular place (although geography is not determinant), and
4. The role of leadership is crucial.

2. Cluster analysis (iv): A critique thereof

- A problem with Porter's approach is the blurring of the roles of public and private organizations *and* individuals such that any meaningful qualitative distinction between the two types of activities slides under what becomes an overall prescription;
- We are hardly able to form a 'checklist' of collective actions to be undertaken akin to the specific recommendations set down by ABARE;
- Further, there are excellent reasons why certain activities of governance and regulation ought to be undertaken by government authorities, rather than the pooled interests of private capital.

3. 'Collective goods' approach (i)

- A more analytically precise framework is needed to identify different types of collective action;
- We suggest a three-dimensional approach to improve decision making on the types and attributes of collective action, with a clearer distinction between public and private activity and governance roles.

3. 'Collective goods' approach (ii)

- Defining the group:
 1. **Global public good**: a well-understood role for the national government and public finance
 2. **Local public good**: a 'public economics' approach involving local government
 3. **Chain good**: a form of club good that is the avenue for private action by members of the value chain, often with enabling government legislation

3. Collective goods approach (iii): Oakerson's (1999) shared services

- Drew a fundamental distinction between service 'provision' and service 'production', arguing that different criteria apply to these conceptually different functions.
- Provision of services involves determining whether to provide a particular service, the regulation of activities, revenue-raising, the quantity and quality of services provided, and how these services should be produced.
- Production involves the actual creation of a product or the rendering of a service rather than its financial provision.
- The conceptual separation of provision from production allows for choice between different vehicles for producing services.
- Oakerson (1999) identified 6 generic possibilities for linking provision with production:

3. Collective goods approach (iii): Oakerson's (1999) shared services

1. 'In-house production': Where a firm arranges its own production.

NOT A SHARED SERVICE

2. 'Coordinated production': Where two or more firms coordinate production activities

WEAK SHARED SERVICE (e.g.: regional branding strategy – *Taste Orange*);

3. 'Joint production': Where two or more adjacent firms organise a single production unit

STRONG SHARED SERVICE (e.g.: shared winemaking facilities);

4. 'Inter-firm contracting' on a cost-recovery basis; where one firm contracts services from a separate firm, horizontally or vertically

STRONG SHARED SERVICE (e.g.: Grape and Wine Research Development Corporation [GWRDC]);

5. 'Private contracting' (one firm undertakes production for another on a 'fee for service', profit-recovery basis).

NOT A SHARED SERVICE

6. 'Franchising' where one firm purchases from another the right to produce a given good or service on a profit-recovery basis.

NOT A SHARED SERVICE

3. Collective goods approach (iv): Oakerson's (1999) shared services

Types 5, 6 + 1 all possess additional economic and political attributes derived from their for-profit nature [as opposed to] shared services aimed at reaping the advantages of scale and scope... Private contractors seek to maximise profits from contractual relationships;

The specification and differentiation of shared service arrangements allows for the more precise identification of collaborative and collective action in any wine cluster;

This avoids the erroneous labelling of commercial activity as collaborative and collective activity in some iterations of the cluster approach identified above;

It also hives off other institutional arrangements described as collective or collaborative forms of action by the institutional model.

4. Directions for future research

- Which wine clusters exhibit these shared services characteristics and are they more successful – or not?
- Lots of room for international comparisons discussing types of shared services;
- Local governments are necessarily defined by location, which is a salient (but not dominant) feature of Porter's recommendations – could they play an expanded role?
- **Peak role[s] for local government?** Councils comprise leaders elected by the local community, in many instances businesspeople who indeed 'abandon the traditional categories that drive our thinking about who does what in the economy' to provide 'a higher plane' of conceiving of their economies and communities in Porter's (1998) sense.