Chapter 1 – Introduction

1.1 Entrepreneurship in developing countries
Entrepreneurship is of pivotal importance to any society’s economic and human development (Seelos and Mair 2007; Mair, Marti, and Ventresca 2012). However, the presence of entrepreneurial activity does not necessarily imply economic and human development (Sutter, Webb, Kistruck, and Bailey 2013). Even the least developed countries inhabit vast numbers of entrepreneurs and small business owners, but often fail to realize the entrepreneurial potential of their firms. Two important reasons for weak entrepreneurial performance as identified in literature are 1) the weak position of firms from developing countries in global value chains, and 2) institutional environments not fully supportive of entrepreneurship (Gereffi, Humphrey, Kaplinsky, and Sturgeon 2001; Gereffi, Humphrey, and Sturgeon 2005; Mair et al. 2012; Sutter et al. 2013). In the current thesis we study both the strategic position of firms in global value chains as well as the institutional environment that these firms are confronted with. We focus on primary producers in global value chains, and more specifically small-scale farmers, given current debates in academic research about the position of primary producers in global value chains, and the continuing importance of agriculture to most of the least developed countries’ economies (Gereffi et al. 2001; 2005; Kaplinsky 2000; 2006; World Bank 2007). Our main research question is:

“What strategic opportunities do primary producers in global value chains have to realize the entrepreneurial potential of their activities?”

To address the main research question we conducted four different studies, which can be found in the four ensuing chapters. Each of the studies has a different focus, emphasizing part of the main research question above. In chapter two we discuss a novel method for studying the competitive advantage of firms. While studying competitive advantage has been a central focus in strategic management studies for some decades, there is still an ongoing debate on how to operationalize one of the most prominent theories, the Resource-Based Theory (RBT), in a way that its central tenets are tested in a rigorous and convincing way (Armstrong and Shimizu 2007; Newbert 2007; 2008; Ainuddin, Beamish, Hulland, and Rouse 2007; Barney, Ketchen, and Wright 2011). We contribute to this discussion by suggesting a template for empirical RBT research. We tested the template among 375 small-scale farmers in Ethiopia to demonstrate how it works (see data and methodology section below). This allowed us furthermore to study and explain sources of performance differences between seemingly homogeneous farmers. In the third chapter we continue with another application
of the template, albeit with a different focus. The focus in chapter three is on the benefits of collective action and the efficiency with which members of a collective utilize their resources, their input factors. We contribute to existing literature by participating in an ongoing discussion about the importance of homogeneity versus heterogeneity in collectives, and finding the balance between equity and efficiency (Van Bekkum 2001; Beverland 2007; Olson 1965; World Bank 2007). In chapter four, we study the institutional environment confronting farmers in Ethiopia. We suggest a novel framework for studying institutional environments. We consider such a framework an important contribution to literature since to date research has mostly focused on institutions that are absent or not enforced, and those studies that did recognize the complexity and richness of societies’ institutional fabrics failed to analyze clearly what the on-the-ground dynamics are, how they work, and what fuels institutional entrepreneurship (Khanna and Palepu 1997; 2000; Mair and Marti 2009; Mair et al. 2012). With the framework we aim to address all these issues. Finally, in chapter five, we present a conceptual study in which we sketch the conditions for successful strategic positioning in global value chains by primary producers from developing countries. We contribute to existing literature, mostly from the field of economic geography, by incorporating strategic management literature discussing sources of competitive advantage. To date literature in the field of economic geography has largely ignored the difference between value creation and value appropriation (Gereffi et al. 2005; Kaplinsky 2000; 2006; Coe, Dicken, and Hess 2008), resulting in confusing and incomplete findings and conclusions concerning the position of primary producers in global value chains.

1.2 Research context

Today’s economy is highly global in nature. Products are designed, produced, transported, and marketed by a variety of firms that are legally independent and geographically dispersed. Global value chain (GVC) and global production network (GPN) literature study, among other things, the distribution of activities and value created among firms working on certain products in certain value chains (Gereffi et al. 2005; Coe et al. 2008). There is much variance to be observed in value created by different actors within the production networks or value chains. Typically primary producers in developing countries (often operating as sole proprietors in markets that near perfection), create little value and may be confronted with poverty (Humphrey and Memedovic 2006; Humphrey and Schmitz 2001; 2002; Kaplinsky 2006). As a way out of this situation scholars from the field of economic geography and political economy discussed so-called upgrading trajectories. Four types of upgrading have been defined. Upgrading is argued to allow firms from developing countries to 1) produce more sophisticated products (product upgrading), 2) to process more efficiently (process upgrading), 3) to become active in higher value-adding activities in the chain (functional
upgrading), or 4) to participate simultaneously in separate GVCs (inter-sectoral upgrading) (Gereffi 1999; Gereffi et al. 2001; Humphrey and Schmitz 2002). A problem, however, as identified by Kaplinsky (2000; 2006), is that upgrading at a large-scale results in immiserising growth: increased economic output yet decreasing economic returns. Immiserising growth results when markets after upgrading are still (nearly) as perfect as they were before. Though more value is created, this value is not appropriated by the primary producers. Instead, other chain actors or perhaps consumers, appropriate this value. To avoid created value from being appropriated by others, Kaplinsky (2006) suggests primary producers to innovate in order to differentiate from competitors but he fails to sketch the conditions required for being innovative. Chapter five provides a conceptual study discussing propositions on what makes a strong position for primary producers in global value chains. We argue that not just creating but appropriating value as well, requires the development and deployment of resource bundles that, as discussed in the Resource Based Theory (RBT), are valuable, rare, inimitable, and non-substitutable (VRIN; Barney 1991). Since it is difficult, if not impossible, for smallholders to develop and utilize such bundles individually we discuss the importance of collective action and under which conditions collective action is successful. Our discussion result in five different propositions. The main contribution to current literature is that we formulate conditions for primary producers to participate successfully in global value chains, to avoid immiserising growth and to appropriate value in addition to creating it. We argue that these contributions can further the debate on upgrading opportunities for primary producers in global value chains.

The RBT is an intuitive theory. Its central tenet is that firms have heterogeneous and immobile resources and capabilities that, when valuable and rare (VR), result in a competitive advantage, or even a sustained competitive advantage if the resources and capabilities are simultaneously inimitable and non-substitutable (VRIN; Barney 1991). The VRIN characteristics that resources must hold in order to potentially result in a (sustained) competitive advantage provide clear criteria for studying opportunities of firms, including primary producers in global value chains as discussed in chapter five. However, though the theory is intuitive, operationalizing it has posed serious problems to scholars. There is still an ongoing debate on methodological issues in empirical RBT research despite the theory’s prominence for over two decades in the field (e.g., Armstrong and Shimizu 2007; Newbert 2007, 2008; Barney et al. 2011). Empirical RBT research has been criticized in different respects, including a failure to measure the characteristics (VRIN) of resources and capabilities, and thereby the theory’s central tenets (Armstrong and Shimizu 2007; Newbert 2008). Efforts to address this criticism resulted in new studies measuring the characteristics of resources (cf. Ainuddin et al. 2007; Newbert
2008), but these studies, in turn, failed to measure whether resources and capabilities carried the characteristics simultaneously. In addition the studies failed to identify which resources specifically resulted in a competitive advantage. In chapter two we discuss the RBT, what needs to be measured, and how it can be measured. We suggest a template for empirical RBT research that results in more rigorous and objective data that measures both specific resources as well as its characteristics, and it measures whether resources are simultaneously valuable and rare, since being only valuable or rare does not make a resource a source of competitive advantage. We tested the template among 375 small-scale sesame seed farmers in Ethiopia to demonstrate how the template works.

While the main aim of chapter two is to discuss the template for empirical RBT research, we also learn from its application that we can explain close to 30% of the performance differences between seemingly homogeneous commodity producers in terms of valuable and rare resources and capabilities. While interesting and important, we argue that for sole proprietors operating in markets that near perfection, such as the sesame seed farmers in Ethiopia, it is important to create, bundle, and deploy resources and capabilities in a collective as well. In theory collective action offers opportunities to farmers to enjoy benefits from economies of scale and scope. In practice, however, the theoretical potential often remains unrealized. It remains unrealized due to violated conditions of success of collective action (Olson 1965; Beverland 2007; World Bank 2007). In studies on conditions for success of collective action, much of the debate focuses on the importance of homogeneity and heterogeneity. While homogeneity in terms of the goals to pursue is required, heterogeneity in terms of complementary contributions to the collective is required as well (Olson 1965; Beverland 2007; Wincent, Örtqvist, Eriksson, and Autio 2010). We participate in the debate by studying the access to and usage of input factors by members of cooperatives and non-members in Ethiopia. We find that members have better access to input factors, but that non-members use the input factors more efficiently. We explain our findings in terms of balancing the conditions of homogeneity and heterogeneity in collectives. We find that the institutional environment in Ethiopia does not create the required supportive environment needed for meeting the conditions for success of collective action.

While in chapter three we explain part of the institutional environment and how it constrains opportunities for farmers to benefit from collective action, we continue our discussion on institutions and its relation to entrepreneurial behavior in chapter four. Institutional fabrics in developing countries have been an important subject in entrepreneurship research (Khanna and Palepu 1997; 2000; Mair and Marti 2009; Sutter et al. 2013). For entrepreneurs to enjoy some measure of success, the general argument is that formal market-based institutions are needed to support them and the functioning of markets. Well-
known examples are the protection of property rights, contract-law enforcement, and the establishment of supporting apparatuses (Mair and Marti 2009; Sutter et al. 2013). According to current literature the absence of these institutions or their enforcement, typically referred to as “institutional voids”, explains weak entrepreneurial performance. Reality, however, is more complex. Mair et al. (2012) argue that it are not so much the voids, but more so the richness and complexity of institutional fabrics that explain entrepreneurial behavior, or the absence of entrepreneurial behavior. They juxtapose the absent institutions to what is present and make as such an important contribution. However, from their study it remains unclear what exactly the on-the-ground dynamics are in developing countries, what institutional fabrics look like, how the relationship between institutional environments and behavior can be studied, and how institutions and institutional fabrics evolve. We aim to further the discussion by introducing an analytical framework for studying institutional environments and entrepreneurial behavior. We demonstrate the use of the framework with case study data from Ethiopia.

Each of the chapters addresses the main research question in different ways. The second chapter analyzes strategic opportunities at individual level, while the third chapter does so at the level of the collective. Chapter four discusses the room entrepreneurs have to play the institutional environment and to pursue entrepreneurial behavior. In chapter five the main research question is addressed with a conceptual study. In chapter six we reflect on our findings, provide a conclusion, and suggest theoretical and practical implications.

1.3 Data and methodology
Three of the ensuing chapters are empirical studies. To obtain data we decided to collect the data in Ethiopia, and more specifically among sesame seed farmers in the northwest of Ethiopia, a county called Kafta-Humera. This region bordering Sudan and Eritrea was chosen to collect data for several reasons. Kafta-Humera is a hot and drought-prone region. This implies that with the traditional rain-fed agricultural practices that small-scale farmers rely on, only two crops can grow well there: sesame and sorghum. A first reason for collecting data in this region is because most farmers grow sesame as only or major crop. This implies a sample from which we can draw theoretical conclusions that are not blurred by complex farming systems often present in humid areas in which small-scale farmers grow a variety of crops that are harvested and sold at different times throughout the season. A second benefit of sesame production is that it is a cash crop. Sesame is not grown by farmers to be used for domestic consumption. In areas where small-scale farmers also grow food crops for domestic consumption, their entrepreneurial behavior is more difficult to study due to priority that will be given to feeding their families over making as much profit as possible. Thirdly,
Sesame is an export crop. This results in clearly identifiable value chains rather than difficult-to-study local, partially informal, trade channels. Fourthly, we were looking for a region in which part of the farmers is member of a cooperative and part is not. This allowed us to compare members of cooperatives to non-members. Fifthly, and finally, Kafta-Humera provided a good region to collect data due to the institutional development of the region. After the fall of the DERG regime in 1991, a new government was installed in Ethiopia in 1994. At that time the country was confronted with a need to create institutions directed at markets. As a consequence there is a dynamic and evolving institutional fabric that is of interest to our study.

In each chapter a methodology section is provided. We collected interview data among 131 interviewees and survey data among 375 respondents in six visits. Five visits were used for data collection, while a sixth visit was planned one year after the fifth visit in order to validate the findings, analyzes and interpretations with industry experts. The chapters will elaborate on the details. In the appendices the survey (C) can be found as well as the calculation of the Value scores (D) (see chapters two and three).

1.4 Structure of the thesis
The thesis is written as a bundle of academic articles each related to the main research question. This implies that each of the following chapters has its own format with an introduction section, literature review, methodology, findings, discussion, and conclusion. The introduction and conclusion chapters discuss the overarching research question, complementarity of the articles, and general conclusions and practical implications. Near the back of the thesis a bibliography is found incorporating the references of all chapters including the introductory and concluding chapters.