Cultivating sources of competitive advantage
Olthaar, Matthias

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version
Publisher's PDF, also known as Version of record

Publication date:
2015

Link to publication in University of Groningen/UMCG research database

Citation for published version (APA):

Copyright
Other than for strictly personal use, it is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), unless the work is under an open content license (like Creative Commons).

Take-down policy
If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Downloaded from the University of Groningen/UMCG research database (Pure): http://www.rug.nl/research/portal. For technical reasons the number of authors shown on this cover page is limited to 10 maximum.

Download date: 26-02-2019
Chapter 6 – Conclusion

In the current thesis we addressed the question “What strategic opportunities do primary producers in global value chains have to realize the entrepreneurial potential of their activities?” On both theoretical and empirical grounds we can draw various conclusions. While each of the chapters provides specific conclusions in relation to the chapter’s discussions, we focus in the current chapter on the overall conclusion of this thesis.

In order not just to create value but appropriate it as well, firms need to develop and deploy a resource-base with valuable and rare resources. While this as such is not a new insight, the criteria of value, rareness, inimitability, and non-substitutability (VRIN) have not been applied to date in global value chain research. As we discuss in chapter five, the VRIN criteria can provide important insights in discussions on effective upgrading and ways to avoid immiserising growth. When studying the resources of sesame seed farmers in Ethiopia, as documented in chapter two, we indeed found that the deployment of resources and capabilities that are simultaneously valuable and rare can explain performance differences to a certain extent. Also seemingly homogeneous smallholders in competitive markets are heterogeneous in their performance and deployment of resources and capabilities. As such we demonstrate not only on theoretical grounds, but also on empirical grounds that primary producers in global value chains have strategic opportunities to realize the entrepreneurial potential of their activities to a larger degree.

Strategic opportunities, however, do not only exist at the individual level. In chapter three we demonstrate that, though largely unrealized, there are opportunities for farmers to benefit from collective action. Currently, however, the institutional environment is not supportive of effective collective action. In the words of the World Bank (2007), policy makers are searching for the balance between efficiency and equity. In Ethiopia this is manifested in policies aiming at all-inclusiveness: preferably all farmers are member of one cooperative. An import conclusion to learn from current practices is that policies of “all-inclusiveness” in cooperatives lead to the violation of goal homogeneity and contribution heterogeneity, and consequently to malfunctioning or inefficient cooperatives. Due to malfunctioning or inefficient cooperatives, membership-bases are small, and participation, trust, and willingness to invest by members are low. In other words, farmers at a large scale choose not to become member or to participate actively, implying exclusion rather than inclusion. Making cooperatives function efficiently, will attract members, and result in inclusion. Currently, however, the institutional environment in Ethiopia does not provide
the freedom to like-minded farmers whom trust one another to engage in collective action.

Though the former conclusion that much of the theoretical potential of collective action is not realized due to an unsupportive institutional environment, the positive side is that due to the very definition of developing countries, change is rapidly occurring. The institutional development that we observed and documented in chapter four, demonstrates that there are opportunities for entrepreneurs to play the institutional environment in such a way that entrepreneurial behavior is possible. The study shows that Ethiopia is in the middle of a process of finding the balance between efficiency and equity, and is willing to make changes, such as with the changed law allowing cooperatives to supply to processing firms. In addition institutional entrepreneurs operate on the edge of what is allowed or permitted given the society’s current institutions and even aim to increase the room for entrepreneurial behavior. Contrary to previous research on institutions and entrepreneurship in developing countries, this means that the quest for developing countries is not one of simply filling the institutional ‘voids’, but one of balancing the different principles that societies value. For entrepreneurs this means that opportunities exist to benefit from collective action and to maneuver as such in the institutional environment that entrepreneurial opportunities can be exploited.

In short we can conclude that primary producers have strategic opportunities to exploit at both the level of the individual as well as the collective, and that institutional environments may evolve to increasingly favor the exploitation of these opportunities. Farmer entrepreneurs use resources, collective action, and institutional agency in their efforts to exploit strategic opportunities. Both theoretical and empirical arguments support this conclusion.

**Theoretical implications**
The findings and conclusions of the current thesis bring a couple of theoretical implications. Firstly, in the field of economic geography, scholars working on GVC, GPN, and upgrading studies, can substantiate their research by incorporating insights from the field of strategic management. Current research discusses opportunities for primary producers in GVCs to enjoy benefits from upgrading, yet the current research faces the phenomenon of immiserising growth. To date no theoretical underpinnings were developed in literature discussing how to avoid or counter the phenomenon of immiserising growth, except for the suggestion that primary producers should be innovative (Kaplinsky 2006). This suggestion, however, raises a number of other questions that we aimed to address with our conceptual study as documented in chapter five. Our discussion relies on insights from the field of strategic management. We proposed different ways in which these insights can be incorporated. Of particular
importance are the resources that primary producers need to make an attractive value proposition in the chain. In line with the resource-based theory (Barney 1991) we argue that such resources need to be Valuable, Rare, Inimitable, and Non-substitutable. We furthermore argue under which conditions such resources can be developed, bundled, and deployed by a collective of primary producers. In chapter two we demonstrate using empirical evidence, that primary producers are heterogeneous in their performance, despite their ostensible homogeneity, and that part of this performance variance can be explained by access to and use of valuable and rare resources by primary producers. Given that part of the heterogeneity is valuable and rare, this implies that farmers do have sources of competitive advantage, as well as disadvantage, which can respectively be developed and deployed further, and be neutralized. We suggest in order to further GVC, GPN, and upgrading literature, to incorporate these insights on strategic management and collective action.

In chapter three we take a closer look at the conditions of success of collective action. We study the efficiency with which farmer members of cooperatives make use of their input factors and find that they generally do so less efficient than non-members. We explain this difference in terms of the conditions of success of collective action. A number of these conditions are violated in the context in which we studied collective action. This should not come as a surprise, according to the World Bank (2007), as in developing countries often a quest is observed to balance efficiency and equity. In the name of solidarity, the World Bank (2007), argues, farmers are included in cooperatives which may reduce efficiency. Our study is relevant to current research on collective action since it is one of the first to provide empirical evidence for phenomena and relationships that had been theorized before. In addition, we demonstrate our empirical evidence using novel research methods that, as we argue, increase validity and reliability. Finding statistical support for theories under development brings theories to a more mature and established stage (Armstrong and Shimizu 2007).

Our study also has relevant theoretical implications for the RBT. The RBT has been one of the most, if not the most, prominent theory in the field of strategic management for the past two decades. Nonetheless, despite its prominence, methodological debates on how to operationalize the intuitive theory remained to date. In existing empirical research scholars failed to measure both specific resources as well as their characteristics (VRIN), and they failed to measure the characteristics simultaneously. This resulted in studies demonstrating the importance of certain specific resources and capabilities of firms to competitive advantage without knowing whether these resources and capabilities are actually VRIN, and in studies demonstrating that firms with resources and capabilities that are VRIN do realize a competitive advantage, albeit without exactly knowing which researches specifically carry these characteristics. In addition,
concerning the latter, scholars to date failed to study whether resources and capabilities carried the characteristics simultaneously. This is important since resources need to be simultaneously valuable and rare in order to contribute to a competitive advantage. While a need to develop novel ways to conduct empirical RBT research using mixed methods has been identified (Barney et al. 2011), no methodological suggestions have been made to date. We argue that the template that we developed can further RBT research. We furthermore argue that another important theoretical implication for the RBT is its proven relevance in the sector that we studied. To date the RBT has not been used in a certain sector, among commodity producers in a developing country. It demonstrates that the theory is robust and validated and relevant not just in sectors commonly studied, but also to commodity producers in Africa.

Finally, an important theoretical implication in the field of entrepreneurship research is a shift from the focus on so-called voids to the complexity and richness of societies’ institutional fabric as already suggested by Mair et al. (2012) and further developed and substantiated in the current thesis. The framework that we developed allows to study institutional fabrics in all their richness, and resulting behaviors. Applying this framework implies for current literature the recognition that failures to utilize the potential of entrepreneurship in developing countries is not, as commonly argued, so much the result of missing institutions, but more so one of competing institutions and the responses of entrepreneurs to these ‘tensions’. The multiplicity of societies’ institutions and the resulting tensions may make the institutional environment a swamp in which entrepreneurs can drown. On the other hand, institutional entrepreneurs may identify opportunities resulting from tensions and exploit tensions to their benefit. Understanding the richness of societies’ institutional environments is important in studying and understanding entrepreneurship in developing countries.

Managerial and policy implications
In addition to the theoretical implications, a number of practical implications can likewise be derived from the current thesis. Firstly, a large number of governmental and non-governmental organizations (GOs and NGOs) are working on programs to improve the income of poor farmers in developing countries. These organizations base their work on the idea of upgrading. However, as we argued, upgrading may result in immiserising growth. Programs aimed at improving agronomical yields of farmers provide such an example. Assuming success, increased supply will, ceteris paribus, lead to decreasing prices, according to the general economic law of supply and demand. In other words, it may lead, to a smaller or greater degree, to immiserising growth. While it is probably beneficial for farmers and many other stakeholders to improve agronomical yields, it is an insufficient condition for appropriating more value.
Without recognizing the sources of a competitive advantage, other actors in the chain, if not consumers, will appropriate value created when improving agronomical yields. A first implication therefore is to recognize the importance of strategic resources in development programs.

Secondly, as both the third and fifth chapter demonstrate, it is important to recognize the conditions for success of collective action. Practitioners, predominantly staff from GOs and NGOs, often aim at building markets for the poorest people, or including them on the market. One way of doing that, as we also observed in Ethiopia, is by assuring that there is a cooperative that is accessible to everyone. However, by organizing cooperatives in this way, conditions for success of collective action are violated. As the World Bank (2007) argues, cooperatives function less efficiently due to the aim to realize principles of solidarity. We argue that if cooperatives are more accommodated to the (heterogeneous) goals and needs of its members, they can function well and create value for its members. If goals, willingness to take risk, innovativeness, et cetera vary per farmer, than so must likewise vary the number of cooperatives a farmer can choose to become member of, or there must be the opportunity for her or him to start her or his own cooperative. As such all farmers, or most farmers, can, if desired, be part of one of the available cooperatives that meets their goals, and farmers are not simply, as is currently the case in Ethiopia, confronted with only the choice to become member of the one cooperative, or not. Since currently the existence of multiple cooperatives per village is not yet permitted in Ethiopia, a variety of problems result that prevent the cooperatives from utilizing their potential. In case it were permitted, exceptions to the rule (such as the cooperative Humera 2 from chapter four) demonstrate the value-creating capabilities that can result. Increased efficiency is not only important in terms of value creation (and spin-off effects as a consequence of increasing incomes of farmers), but also in terms of inclusiveness. Currently a majority of sesame seed farmers in Tigray is still not member of a cooperative. This is largely due to the ineffectiveness of cooperatives. Realizing more effective cooperatives will attract more farmers. An important implication for policy makers and supporting organizations is therefore to recognize the conditions for success of collective action and to create an environment in which these conditions can be met. This may in addition help resolve part of the current ambiguity in Ethiopia’s institutional fabric.

A third practical implication from our research is that there is room to play the institutional environment. This is important to both entrepreneurs as well as NGOs. Institutions compromising entrepreneurial behavior are not necessarily the only institutions affecting entrepreneurs. There are most likely other institutions as well that facilitate entrepreneurial behavior. The challenge is to maneuver in this environment in such a way to avoid compromising institutions
and to pursue entrepreneurial behavior. For both NGOs and entrepreneurs it is important to recognize and understand the room existent to do so.

Fourthly, and finally, an important practical implication from our study concerns the extent to which institutions evolve from bottom-up. As our data suggest, institutions are not merely designed, installed, and enforced top-down, but are also shaped by the behavior of the institutional environment’s constituents. In societies’ balancing act in shaping institutional fabrics, it is important to recognize the interactions between the institutional environment and agents.