

## 1 The Problem

Globalisation is not simply an increase in international trade. It is also the production of manufactured components linked and coordinated on a global scale (Dicken 1998). Value-chain analysis has been used productively to yield insight into the dynamics of how firms are globally interconnected (Gereffi 1999; Kaplinsky 2000). Value-chain analysis returns us to issues of political economy, foregrounding the organisational and institutional linkages between firms whilst still maintaining the essential nature of competitive market relations. Furthermore, it allows an understanding of how firms are locked into dependant relationships across territories through considering issues of cooperation, competition, power, management and control within and between value chains. All these have become subsumed within terms which seem to mean the same thing – 'governance', 'lead firms', 'buyer-driven', 'producer-driven' – to express what is essentially the governing role of non-market connectedness between firms.

From a development perspective, value-chain analyses inexorably raise a number of critical policy questions: Who benefits? How should the benefits be calculated? Are the gains equally spread between the participants? Are firms being upgraded or downgraded in the process? What drives upgrading through the value chain? In short, how can one use the insights gained from the dynamics driving value chains to tackle the quintessential problems of development: facilitating growth and the distribution of the social benefits derived therefrom in developing countries engaging in global markets?

Most analyses have focused on the dynamics underlying buyer- or producer-driven chains, from the vantage point of the location of the 'lead' firms 'driving' the process and 'governing' global chains usually located in the industrialised countries (Gereffi 1994). This follows from the fact that value-chain analysis is based on the realities of where global markets are dominated and where the greatest rents are extracted. However, for those attempting to produce policy-driven research in developing countries, the key issues are not simply an analysis of what *is*, but also, what *can be*. In other words, is it possible to get vertical firm

# Creating Value-chain Cooperation

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cooperation in order to upgrade and move into new more highly value-added activities so as to defend their existing productive base? If value-chain cooperation can be created then this has development implications of some import. For, as Schmitz has shown, not only did China's entry into the global footwear value chain have very grave consequences for the Brazilian shoe producers of Sinos valley, but the entry and competences of these producers was proactively aided by the same buyers who had, in previous years, aided the Brazilian producers. Complacently standing still within their existing value chain as simple producers is likely to downgrade them. Their best defence is instead to embark on a process of functional upgrading in order to occupy some parts of the design-intensive activities in the chain.

Finally, value-chain analysis and the stress on political economy allows us to grasp another critical element of globalisation. The dynamics inherent in the workings of particular value chains are not always rational or beneficially promoting the best developmental solution. For value chains are also nodal points of power, and corporations within one value chain are also often locked into another value chain, which results in cross-cutting interference and blockages. Intra-corporate struggles get played out as contradictions between value chains, and these dynamics interfere in the process of successfully creating cooperation and upgrading in other competing chains.

Bearing this in mind, this article is an attempt to see what can be gleaned from a practical venture in trying to secure value-chain cooperation in a particular sector in a developing country: the hardwood furniture value chain in South Africa.<sup>1</sup> In doing so, it attempts to throw some light on the above issues by posing three questions:

1. Can value-chain cooperation be constructed rather than simply reflected?
2. How are the different modalities of governance, organisation, coordination and power expressed in a specific concrete case study of a value chain?
3. What general lessons can we learn from this about facilitating upgrading through cooperation in other value chains?

The following sections attempt to throw light on these three questions through a discussion of the dynamics driving the construction of a particular hardwood furniture value chain using South African grown Saligna timber. In doing so it also shows how the dynamics and entrenched corporate power of another value chain – timber to pulp to paper – clashed with that of the Saligna furniture value chain.

## 2 Creating the Saligna Value Chain and Meeting the Upgrading Challenge

The Saligna furniture value chain in South Africa was stimulated both by global environmentalism opening up export opportunities, and a shift in domestic market demand. A key market driver in the global timber products industry is the stress on environmental responsibility. For most developing countries this threatens their hardwood furniture exports which traditionally use indigenous rain forests. South Africa, however, was uniquely placed to take advantage of this opportunity, for Saligna (a species of Eucalyptus hardwood) was *commercially grown* in large plantations as cheap tunnel-stopes for the mines. However, mining restructuring resulted in a radical decline in market demand, creating Saligna surpluses (emerging in the next five years) and the timber growers and millers had to find a market to realise their sunken plantation investments.

This potential surplus, combined with the fact that Saligna finishes can simulate threatened hardwoods, offered unexpected possibilities for exporting furniture to Europe and North America. Furthermore, it also provided the potential to move furniture producers into new market niches, with higher unit prices. This was not lost on some timber manufacturers and suppliers. Manufacturers were also experiencing urgent pressures. The prices offered for pine furniture by global buyers were plummeting and becoming unprofitable for most South African producers, whereas Saligna furniture offered a low-cost and environmentally acceptable alternative to increasingly scarce and highly priced traditional hardwoods.

However, notwithstanding the problem of a surplus of Saligna, this was not necessarily translated into

quality timber for the furniture manufacturers. For the sector was also heavily dominated by another more powerful global value chain (pulp and paper), which did not differentiate between chipping pine and the more potentially valuable (to the furniture manufacturers) mature Saligna logs, and pulping them for the paper industry. Ironically Saligna-furniture manufacturers experienced a shortage of mature timber at the same time as the sawmills were concerned about a potential surplus.

Hence, the value-chain restructuring initiative arose from a combination of pressures. Although the stimulus to change emanated from both millers and manufacturers, it was the changing perspective of the sawmills which had the greatest impact. Previously, through controlling the quantity and quality of timber supplied to the manufacturers, they held the rest of the value chain to ransom. Now it was their desire, and need, for change that allowed the Saligna restructuring initiative to proceed. This provided the foundation for the development of a strong *sense of the interdependence* of players along the value chain. However, overcoming longstanding barriers to trust and translating this into *actual* cooperation with mutual benefits proved more complex.

The first tentative attempts at value-chain restructuring came to naught, and it was only when the furniture manufacturers sought the assistance of *external intermediaries* that progress was made. In late 1998 the Industrial Research Project (IRP)<sup>2</sup> held a workshop for furniture firms. Two manufacturers attending were eager to promote cooperation between Saligna users and suppliers. Seeing the similarity between industrial restructuring principles and their own goals, they asked the researchers to facilitate a Saligna interest group.

The combination of *external intermediaries* and *internal change agents* from the value chain was critical in arranging the first Saligna workshop. As much as external intermediaries were required to overcome trust barriers, the support of key internal agents lent credibility to the process, encouraging firms to view the initiative as offering real benefits. They publicised the event and facilitated invitations. Other external attempts to get cooperative activity failed, largely because they were policy-driven programmes 'imposed' on the industry from above.<sup>3</sup>

South African experience has shown that even the offer of financial incentives is not enough to widely encourage firms to cooperate. In our experience, in low trust environments it is extremely difficult to encourage cooperation through the medium of policy-support mechanisms unless there are already *key industry players (internal change agents) championing cooperation and network building*.

The historical lack of trust pervading the sector created a particular challenge for the external intermediaries. As external facilitators they had to *mobilise, coordinate and sustain* the dynamism of existing value-chain support for the process. As external intermediaries, they played a catalytic function in *building the trust* necessary for cooperation. It was important that they:

- brought international expertise, status and esteem
- had established a level of credibility within the furniture sector
- were able to use their credibility to lever top-level government buy-in
- were perceived as clearly neutral, for despite a relatively positive attitude towards cooperation, lack of trust and general suspicion about motives remained an issue
- provided energy and proactive organisational inputs; they were the 'product champions' of restructuring in this sector.

Through the involvement of neutral *intermediaries with concrete and real expertise*, as opposed to simply facilitative skills, the initiative was able to avoid being perceived as favouring particular sectarian interests in the value chain. The first Saligna workshop, organised in early 1999, was well attended by 26 people representing government departments, manufacturers, timber traders, industry specialists, timber growers and sawmills. From the outset the group was driven by a value-chain approach. The facilitators stressed the necessity of a value-chain perspective to international competitiveness, as well as the interdependence of the various stages of the Saligna value chain in order to achieve vertical and horizontal collective efficiency.

The group had a very *practical* approach driven by the two problems put on the table by participants:

resolving the issue of supply, and accessing export markets. Eschewing talking about cooperation, the group immediately focused upon practical problems and mutually beneficial solutions. Three key linkages posing particular problems for vertical efficiency were identified, and small groups with participants from each side of the problematic link were created to identify the key issues and air grievances. The existence of competing firms meant that a failure to cooperate held the *sanction* of missing out on benefits enjoyed by competitors.

This highly successful workshop gave birth to the Saligna Value-chain Group (SVCG), a loose national network of 'stakeholders' spread throughout the value chain. The group was coordinated by the IRP, which bore all logistic costs. The members only paid travel costs to attend meetings. Over the next 18 months the SVCG meetings were attended by representatives from:

- Timber growers, primarily the large companies that also owned the sawmills, but also some small plantation owners
- Two large corporate sawmills plus an independent small sawmiller
- Furniture manufacturers spread along the spectrum of products – the number varied with each meeting but at least eight formed the hardcore of the group
- Two key government departments concerned with plantations, water supply, export promotion and manufacturing assistance
- The export council
- Two institutions claiming a specialised assistance role to the industry.

Although there was no formal paid membership, and not all 'members' attended each meeting, the SVCG has met seven times since its formation. It operated by setting up technical working groups to examine problems critical to the value chain's performance. Each group's activities was coordinated by someone from a firm in the value chain (thereby spreading the responsibility beyond the originators). The groups were charged with tackling, through research and experimentation, selected issues. Their brief was to report on how to deliver tangible benefits to the value chain. The external intermediaries took no responsibility for any group's practical activities, acting simply as an

internal communication link, or as a mouthpiece to government.

These technical working groups essentially revolved around the two issues that initially brought the SVC group together, namely:

1. How to maximise the quantity and quality of the Saligna timber supply?
2. How to maximise current marketing as well as upgrade their products through focusing on design and branding?

Although some manufacturers saw that the issue of design and marketing was the key to upgrading through *introducing new products or improving old products* or upgrading through *changing the mix of activities*, the supply issues dominated the activities of the technical working groups as well as the plenary discussions of the entire group. This was not surprising since, in order of priority, the supply issue:

- was the major concern of the mills who exercised the real power in the SVCG, and who often led the technical working groups
- was perceived as the pre-eminent problem for furniture manufacturers
- allowed manufacturers to avoid confronting the more difficult issues of increasing the efficiency of their internal production processes
- seemed to require resolution prior to tackling design, branding and marketing strategies.

The technical working groups were focused on the following issues:

Product Matrix Group. This working group originated from a supply-chain information problem. Manufacturers complained about the unreliable measurement standards of the timber provided, as well as the incongruence between the imperial measures used by the mills supplying timber and the metric measures used in furniture manufacture. This affected the whole value chain. The raw material supplied created lower wood recovery rates, affected production and resulted in manufacturers trying to design to fit in with the timber supplied rather than producing the most optimal designs for marketing and manufacturing. Hence this group, led by the sawmills, was charged

with establishing the exact timber requirements of various user groups in order to improve recovery rates. It improved knowledge flows through sending a questionnaire to all timber-product customers establishing optimal sizes and consensus on a suitable range of dimensions. Furthermore, they experimented with selected manufacturers, letting them design and cut their own wood sizes to try and maximise recovery rates.

**Young Trees Working Group.** This working group originated from the shortage of raw material, focusing on the length of time a tree stayed in the ground before it was cut. Mature *Saligna* trees tended to be felled only after 20–25 years, and the interests of millers and manufacturers seemed to be diametrically opposed. The shorter the time before felling, the faster the return on capital for the growers and mills. However, the older the felled tree, the better the quality and density of wood for furniture production. Hence the question posed: what are the real limits to using younger trees between 8 and 16 years old to make furniture? The mills provided selected manufacturers with young, much rougher, timber of around 8–10 years old for experimentation. The manufacturers using *Saligna* for high value-added interior furniture were able to integrate young timber more easily into their product. However, the success was limited for those manufacturers who used *Saligna* to produce lower value-added garden furniture.

**Density and Grading.** This working group tried to establish suitable densities for different manufacturing applications using less dense timber from younger trees, as well as those portions of older trees with lower density. Hence the mills experimented with different grading systems to closely differentiate the relative densities of wood, whilst the manufacturers again created possible prototypes with different densities of wood. These experiments followed a similar pattern to that of the young timber. Successfully introducing lower density timbers would require a much better grading system, as less dense timber is only suitable for specific applications and could prove disastrous for the quality reputation of the timber if used for the wrong applications. Better grading would also help to improve the recovery of 'clears', which were most in demand.

**Privatisation and the Supply of Timber.** The imminent privatisation of the large state-owned forests, through selling them as one huge plantation to a single buyer, had major ramifications for the *Saligna* value chain. Although the manufacturers saw the potential to increase supplies of mature *Saligna*, they were threatened by the possibility of the new buyer ignoring them and sending all the felled logs to their chipping and pulping mills. The small independent growers and sawmills also wanted to bid for small lots. The one large corporate sawmiller that did not own much plantation land was concerned at not being able to gain access to this newly available timber resource. The timber plantation and sawmilling company most likely to win the bid was dominated by the pulp and paper divisions and hence was likely to consign most of this pristine timber for chipping, export and pulping. This was the only technical working group led by the external intermediaries attempting to use their political contacts with the government department directly involved in the privatisation. Government was positive but raised two issues. Unless the manufacturers could upgrade their products, they would not be able to pay the price required to bid *Saligna* away from chipping and pulping. Furthermore, could the SVCG speak for the mass of manufacturers on a price increase? This created a paralysis. The group was too small to speak for the industry, and even within their own ranks, manufacturers were divided between higher value-adding producers manufacturing high quality furniture able to pay more, and producers using the resource to make lower value-added garden furniture. Notwithstanding this, it did reveal the power of value-chain analysis, for in laying bare the various value chains from sawmill to final customer, it showed the alternative utilisation of *Saligna* in a very stark form.

**Exporting Profile.** Essentially this group centred on upgrading through improving design, branding and marketing. However, little progress has thus far been made. A design and branding working group composed of manufacturers and the government-based export council representative produced very few concrete results. A marketing working group produced a 'joint front' at the 2000 Cologne Fair, where all the manufacturers in the group pooled their resources and, with government assistance, presented one large joint platform. This had mixed

results. Garden furniture dominated and it was undifferentiated in design and product. Manufacturers were basically copying each other rather than cooperating to produce a distinctive and differentiated design brand.

Embryonic Industrial Clustering. Finally the SVC group also created a parallel embryonic cluster of three furniture manufacturers operating in very different segments addressing process upgrading. Although this small group had some initial success in sharing their experiences through a process of learning-by-visiting, and addressing production layout and work organisation, its long-term sustainability is questionable.

### 3 Some Answers to the Three Questions Posed

In answering the question posed we start with the issue of whether value-chain upgrading occurred. For, if this is not the case, then the development implications of understanding how governance operated and whether cooperation can be constructed tend to become somewhat academic.

#### 3.1 Upgrading within the value chain

The upgrading possibilities arising from value-chain cooperation are potentially very important for developing countries. Following Humphrey and Schmitz (2000) we have identified three<sup>4</sup> upgrading trajectories within the Saligna value chain:

1. Increasing the *efficiency of processes* within firms
2. Introducing *new products or improving old products* to outflank competitors
3. Changing *the mix of activities* by taking over functions undertaken by other firms in the chain (e.g. design).

The upgrading effects of the SVCG have been felt to varying degrees across the upgrading trajectories. However, the fact that the participants determined the most pressing problems meant they could also avoid areas of greatest intra-firm inefficiencies, value-chain weakness and upgrading need.

The activities of the SVCG have yielded the greatest efficiency gains in terms of:

- Generating efficiency and upgrading *information*
- Improving *supply chain efficiency* between the mills and manufacturers
- Developing *new product* opportunities through the young tree and wood density experiments
- Upgrading *technical abilities* within firms rather than process upgrading through organisation and production changes
- Realising the upgrading importance of (as opposed to actually) *changing the mix of activities* through emphasising design, finishing and marketing.

Upgrading the internal operating processes of the firms in the value chain was unfortunately not an explicit focus of the activities of the SVCG. However, work on the numerous supply issues between the mills and the manufacturers in the value chain did in fact have an upgrading impact on the internal production processes of the manufacturers through challenging the technical parameters of what could be produced. But the SVCG did not, by and large, challenge its own members directly in terms of their intra-firm production processes, particularly in respect of operational efficiencies and world class manufacturing techniques.

Indeed many of the firms avoided opening up the black box of firm inefficiency, using the willingness of the mills to take responsibility for timber supply problems in order to shift the focus away from this upgrading trajectory. The manufacturers tended to treat the supply issue as a logistics problem, grounded in government and the plantation/milling conglomerates failing to perceive the potential for building a sustainable Saligna furniture-manufacturing export sector. While it is true that the pulp-and-paper value chain is dominant within the corporate structure of the two big plantation/milling conglomerates, this has also conveniently allowed the furniture manufacturers to avoid the upgrading challenge posed within the furniture value chain.

The mills argued, with some legitimacy, that the supply problem is simply a price issue. Pushing valuable manufacturing logs through their huge paper pulping operations yields a higher return than sawing, and hence, at its current price, the wood, pulp, paper value chain dominates. Part of

the problem is that the timber products manufacturing sector is dominated by too many firms engaging in low value-adding activities pitched at the lower segments of the final market, using Saligna wood as a cost reducing resource and not as a value-adding resource. For many firms, the cheapness of the wood dominates, and the final products exhibit too little high quality design, hardly any value-adding branding and insufficient emphasis on finishing.

### **3.2 Value-chain governance, coordination, management and power**

The case study throws some interesting light on the issues of governance, management and power in the reproduction of the value chain. Rather than a single locus of dominance and leadership, as might be expected in the concept of 'lead firm', the SVCG demonstrated multiple and shifting nodal points of power, coordination and management.

It was clear that internal change agents played a crucial role in setting up, championing and maintaining cooperation within the Saligna value chain. However, the specific actors playing this role shifted and changed over the course of time. The initial thrust came from the manufacturers and they consequently exercised enormous early influence (power) in the value-chain group, but this was not manifested in an organisational/management role. Although power in the value chain was structurally concentrated amongst the millers, they tended to play a more supportive role. As the group solidified, the sawmills played an increasingly important role in coordinating and managing many of the working groups whose successful delivery became the lifeblood sustaining cooperation.

However, as the shortage of Saligna for the furniture producers eased, partly an index of the success of the group, so the vociferous support for the SVCG of the manufacturers and their role as enthusiastic leaders correspondingly diminished. The role of lead firm radically shifted from manufacturers to millers. Driven by a fear of losing their final demand for Saligna, the mills became concerned at the SVCG's recent loss of momentum and possible collapse. Consequently, they became the new internal change agents, trying to maintain the dynamism of the furniture value chain.

Furthermore, the sawmills promoting the Saligna furniture value chain were themselves caught in a contradiction. For they were also part of larger corporations that had major, indeed more significant, economic interests in another value chain – timber to pulp to paper – which cut across the interests of the Saligna furniture value chain. The dynamics between these two value chains manifested themselves in internal corporate struggles, contradictory economic strategies and (from the perspective of different actors) seemingly irrational development options.

The case study demonstrates that no single concept of 'driver', 'lead firm' encompasses the myriad of activities and nodal points of power manifested within and between value chains. Even within the sets of actors, nodal points shifted as different roles were created and transformed. The role of internal change agents shifted from manufacturers to sawmills. This is reinforced by the fact that the international buyers, who often play a critical and leading role in the value chain, were not members of the SVCG initiative.

### **3.3 Value-chain cooperation**

The case study demonstrates that under certain conditions value-chain cooperation can be created even in low-trust environments such as South Africa. The key in the case of the SVCG was finding the appropriate mix of external and internal forces.

Externally induced crisis coupled with opportunity, as well as the purposive action of external intermediaries who were able to bring to bear the influence of government, played a critical role and provided the necessary conditions. Bringing into play key internal forces through buy-in of the sawmills, as well as the role of internal change agents driving the process, provided the sufficient conditions for creating the value-chain group.

What seems to have maintained the relative success of the SCVG was the manner in which it operated. A stress on practical activities through the technical working groups, defined and realisable outcomes to meet stated needs, and a constant diffusion of information maintained sufficient support for the initiative.

## 4 Conclusion: Generalisable Policy Lessons

Drawing upon the experience of the Saligna value chain, a number of general policy conclusions can be posited. In regard to the crucial issue of firm and value-chain *upgrading*, the SVCG had the greatest impact in intra-firm process upgrading, marginal progress on intra-firm process upgrading, and minimal direct effect on product or functional upgrading. However the greatest upgrading weaknesses, and hence a warning to other such attempts at facilitating value-chain upgrading, were the failure to:

- Tackle intra-firm process efficiency through lowering operating costs and increasing operational efficiency to world-class manufacturing standards
- Shift the mix of activities within firms towards a greater emphasis on high quality finishing and original design, create supporting collective design and export marketing activities.

With respect to clarifying the usage of the terms 'governance', 'power', 'lead firms', and 'drivers', the dynamics exhibited in the Saligna value chain demonstrate the *conceptual complexity* of the way these terms operate in actual practice. In order to contribute towards some conceptual clarification, it is necessary to distinguish between governance and coordination/management, between single lead firms, and multiple nodal points exercising some forms of control. The case study suggests that these issues can be fruitfully thought of in the following terms.

Value chains imply repetitiveness of linkage interactions. Governance ensures that interactions between firms along a value chain exhibit some reflection of organisation rather than being simply random. Value chains are governed when parameters requiring product, process and logistic qualification are set that have consequences up or down the value chain, encompassing bundles of activities, actors, roles, and functions. This is not necessarily the same thing as the coordination of activities by various actors within a value chain. Value chains are coordinated at different places in the linkages in order to ensure that these consequences (intra-firm, inter-firm, regional) are managed in particular ways.

Coordination usually involves managing these parameters as they are exhibited in bundles of activities undertaken by various actors performing specific roles in the chain. It also requires monitoring the outcomes, linking the discrete activities between different actors, establishing and managing the relationships between the various actors comprising the links and organising the logistics to maintain networks of a national, regional or global nature. However, coordination does not require that a single firm engages in these roles. Indeed there may well be a multiplicity of nodal points of governance and coordination functions. Furthermore, these nodal points may change over time as the prominence accorded to different firms/actors shifts within a value chain. This issue is often confused by using the terms 'drivers' or 'lead firms' as encompassing the different roles of governance, management and coordination, as well as being regarded as synonymous with either a concrete actor(s)-role in coordinating/exercising power or a statement of the characteristics of governance defining the value chain. For example, is a particular value chain buyer driven because a lead firm controls branding/marketing and hence ensures consequences along the value chain? Or is it because this lead firm plays the driver role (i.e. a coordination and management function) within the value chain?

This also causes confusion in regard to the issue of exercising power in a value chain. Power can be exercised in various forms. Within a value chain this can be understood in at least two separate forms: (a) ensuring consequences along the chain, and (b) managing or coordinating the operations of the links within the chain to ensure that these consequences are met. For example, the emergence of full-package providers does not mean that this particular value chain is no longer buyer driven. It simply means that the coordination/management role has been concentrated elsewhere in the chain. If the full package provider can incorporate own branding then this might well constitute a major shift in governance functions. Likewise, in the auto industry, the emergence of modular assembly under the control of multinational first-tier suppliers within a producer-driven chain simply means that the coordination/management function has been driven down the chain. The governance function is still concentrated within the vehicle assemblers,



particularly given the fact that it is primarily interior trim that has become modularized and not the technologically endowed drive/power train aspects of production.

Finally, it is clear that value-chain *cooperation* can be created through purposive action.

The following lessons seem to be generalisable beyond the specific conditions of the Saligna value chain:

- *External crisis* is critical in focusing firms to look beyond sectarian interests towards value-chain cooperation. However, firms are risk averse, and cooperation is risky, particularly in low-trust environments. Crisis has also to contain viable market opportunities for firms to overcome their risk-averse tendencies in order to cooperate.
- *Trust* can be created even in societies with high levels of antagonism. South Africa is riddled with mistrust, and cynicism about the benefits of cooperation is rife. If trust can be created here, there is a role for purposive action in more conducive social environments.
- *Dominant lead firms* exercising a governance role are important in creating and sustaining value-chain cooperation.
- *Internal change agents*, willing and able to play a catalytic function within a value chain, are essential. However, these also change, and recognising shifts in position and place of these internal change agents is important as the process unfolds and new actors come to the fore.
- A 'critical mass' of relevant stakeholders at key levels of the value chain is essential for success. Relevance and criticality may be variously defined by position in the value chain, size of firm or simply interest in finding solutions to a

particular problem. However, unless enough stakeholders are involved to affect change, the network is likely to remain abstract.

- *External intermediaries* with a real knowledge of the industry can act as facilitators, overcoming internal conflicts, jealousies and mistrust. Acting as neutral brokers, mediating cooperation and drawing together disparate interests is critical. However, the energy and resources required for the simple administration and coordination tasks to establish and maintain sustainable cooperation cannot be underestimated.
- *Collectively accessing the ear of government* is an important incentive in generating and sustaining interest in value-chain cooperation. The interest in and hope of successfully accessing government seems sustainable, even when government is not wholeheartedly reciprocal. As long as the lines of communication have been opened and remain so, this seems to be viewed with some significance.
- *Practically oriented activities focusing on selective incentives and definite benefits* with scaleable and achievable targets are crucial in creating the sustainability of value-chain cooperation. Value-chain restructuring occurs through a series of linked improvements, rather than a single big jump. Reaping tangible benefits quickly creates credibility and breaks down barriers to trust. Without sustained real improvements, the incentive to maintain ongoing participation declines rapidly.
- *Information flows* create and solidify value-chain cooperation. This goes beyond simply lowering the transaction costs of information for any particular member of the value chain, and often actually creates information flows where none had previously existed.

## Notes

\* The author is grateful for comment from and joint work with Raphael Kaplinsky giving rise to this article, as well as research undertaken with Nikki Dunne and Justin Barnes.

1. Kaplinsky, Morris and Readman (2001); Dunne and Morris (1999).
2. The IRP is an action research joint project involving the School of Development Studies at the University

of Natal and the Institute of Development Studies at the University of Sussex (UK) with successful experience with value-chain upgrading in the auto-components sector (see Barnes and Morris 1999; www.kznbenchmarking.co.za).

3. In the 1996–98 period, the government had a programme to promote 'clusters', based on advice

from Porter's group at the Harvard Business School. This was loosely focused, and although it achieved some initial progress in the baking and milling chain, and in the carbon steel sector, it soon fizzled out.

4. There is another upgrading trajectory: shifting to an entirely new value chain. However this played no role in the SVCG and hence is not regarded as pertinent.

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