

# DEVELOPMENT VALUE CHAINS MEET BUSINESS SUPPLY CHAINS: The concept of Global Value Chains unraveled.

Value chain promotion is considered a key element in the development strategy of corporations and other actors to promote sustainable development and poverty alleviation. However, value chain is a complex and difficult concept to grasp as it appears in a number of academic literature streams that have different theoretical backgrounds and focus. The diversity of forms and definitions are explored in this paper, where the authors make an overall distinction between the strategic management perspective and the development perspective. They review added values and limitations of each approach. Since the concept is used by practitioners mostly via an eclectic approach, it is susceptible to miscommunication and misuse. The authors avoid this by explicitly opting for a public and pro-poor perspective.

## **Strategic management perspective compared with development perspective**

The strategic management and development perspectives are the two most important/dominant schools of thought that govern the relationship between value chains, corporations and development.

### *The Strategic Management Perspective*

This perspective has two primary focuses that are advocated by the two dominant streams of this literature: supply chain and Porters' Value Chain. The focus of the supply chain theory is that the lead firm should manage the exchange of information and the movement of goods by improving the logistics as a means to reduce transaction costs and improve efficiency. Porter's Value chain on the other hand focuses on how a firm can organize its supply chain in order to outperform its competitors. The focus is on value added to a product, however within an individual company. Goal is the maximization of profits by controlling and designing the supply/value chain in a way that will be most beneficial for a lead or individual company.

	<b>Supply chain management</b>	<b>Porters value Chain</b>
Origin	Supply chain Management	Supply chain management
Purpose	It was developed to manage the total flow of goods from suppliers to the ultimate user.	It was developed to create competitive advantage for a firm (through cost reduction measures and differentiation)
Focus	Improving logistical operations of the lead firm to increase efficiency	Improving competitive advantage of individual firms
Limitation	Unsuited for analyzing social and environment sustainability	Focusing solely on one company and unsuited for analyzing social and environmental sustainability

### *Development Perspective*

In contrast to the strategic management perspective, commodity/value chain concepts from a development perspective are concerned with the whole process of value creation from primary processing to consumption, instead of mainly focusing on the 'retail side of the chain'. This perspective incorporates the linkage between networks, households, countries and societies in general into the analysis of the value chain. In addition to this it analyses the different value adding activities of all parties involved in the chain. Furthermore, the analysis shows how financial, material, and human resources are allocated and flow within a chain as a result of power relations. This level of analysis offers a new paradigm for practitioners as well as According to Bair (2009), the 'global chains' literature started with the world-systems tradition of macro- and long-range historical analysis of commodity chains (Hopkins and Wallerstein 1986), was elaborated with the Global Commodity Chain (GCC) concept of Gereffi (1994) and others within a political economy of development

perspective, and was finally developed into the Global Value Chain concept; clearly inspired by its GCC predecessor, however, also derived from other theoretical and disciplinary affinities (see next paragraph).

	<b>Global commodity Chain</b>	<b>Global Value Chain</b>
Origins	World System Theory	World System Theory, Global Community Chain
Added Value	Developed a new paradigm to handle distribution of wealth along the value chain, spurring development along the chain.	Develop a model to analyze the governance of global value chains. Model was developed by analyzing the levels of coordination, power asymmetry, capability as well as the transaction costs that exist between partners.
Focus	Entire length of the global supply chain with an emphasis on the effect on countries	Create a better understanding of the dynamics of the value chain. Including the importance of manufacturers in establishing the rules of the game
Limitation	Minimal definition of GCC; regulations and institutional factors have not been factored into the theory; rigid classification of chains	GVC is not comprehensive enough as value chains are embedded in broader relationships.

The Global Value Chain (GVC) concept originated out of the Global Commodity Chain (GCC). The GCC distinguishes value chains on the basis of the power relations that exist between producers and buyers in primary and industrial sectors. The GCC identifies the power structure within the chain, that determines how financial, material and human resources are allocated and flow within it. In a buyer driven chain, such as fashion retailers, manufactures have decentralized production networks while in producer driven chains, the aerospace industry for example, the manufacturers have control and power within the chain.

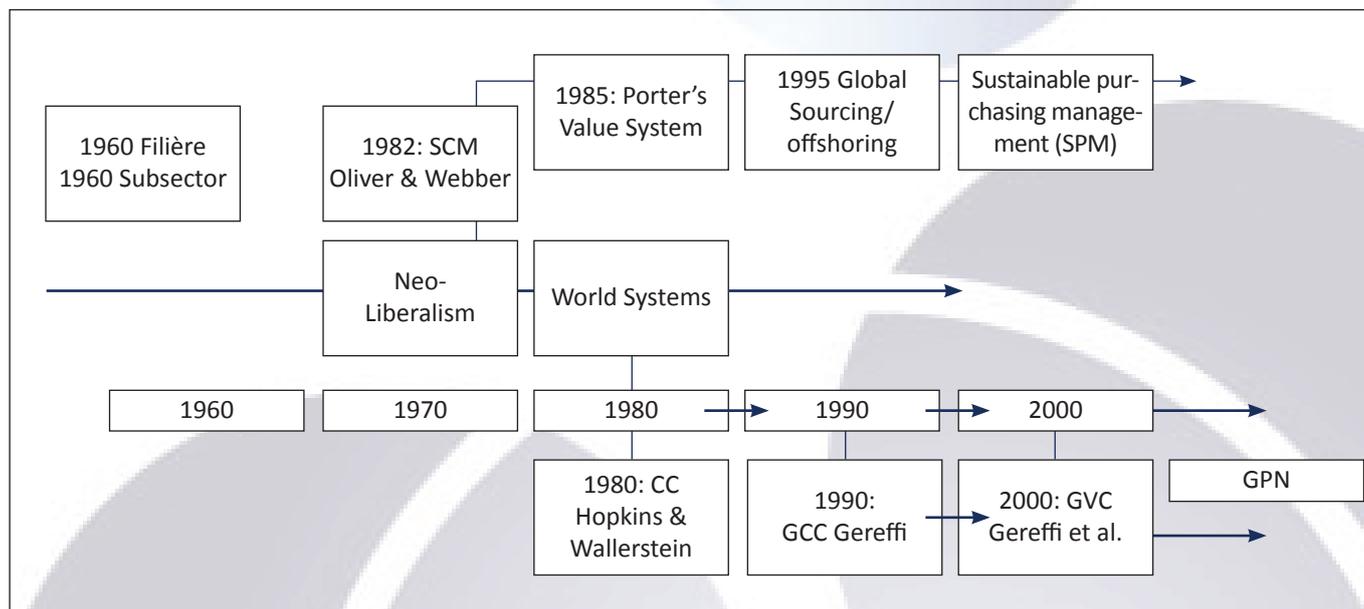
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Building on the work of the GCC, the GVC concept identified three critical variables that determine the structure of a value chain: the complexity of transactions, the ability to codify transactions, and the capabilities in the supply-base (e.g. highly knowledgeable users, such as manufacturers in the automobile industry). GVC increased the understanding of value chains by providing explanations for the existence of entry barriers and unequal access to markets as well as the uneven power and wealth distributions along the chain. The importance of the manufacturers in the global chain is emphasized by the GVC as manufactures can affect the rules of the game due to their specialization and their knowhow.

The GVC also identified five types of value chain governance that are: hierarchy, captive, relational, modular, and market. These types range from high to low levels of explicit coordination and power asymmetry and next to this, they range in

transactions costs of switching to new partners (i.e. in a market type of governance the costs of switching to new partners are low for both parties).

**Figure 1: History of the GVC concept**



Source: own compilation

### The practitioner approach to GVC

There is a need for developing country governments and donor agencies to better understand the dynamics of value chain integration, and to assess its risks and opportunities especially for poor persons in developing countries. Practitioners (development workers, trainers and government workers) are mainly concerned with the question of how economic actors can gain access to the skills, competences and supporting services required to participate in global value chains. In general, practitioners construct an operational concept by synthesizing the diverse range of literature on supply/value chains. A reason for this eclectic use of sources could be that NGO's experience difficulties in adopting both pro poor growth and commercial objectives, and therefore apply knowledge on supply/value chains from both development and business literature.

The pro-poor growth strategy (practitioner approach) clearly distinguishes itself from the supply chain management as the latter aims at optimizing the logistics of input sourcing and marketing in order to achieve profits from the perspective of a particular company. While the practitioners approach, GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) for example develops elaborate models to promote economic development within a value chain perspective. According to GTZ the value chain promotions harness market forces to achieve development goals. This concept evolved from a public perspective and aims at economic growth as a means to achieve poverty alleviation.

### Global Value Chains: Partnership resource center definition

Since the paper highlights the clearly distinctive paths the value chain concept originates from, this can easily lead to miscommunication and misuse. Therefore, the authors wish to make the path and history of their concept of preference explicit. For their definition, they adopt insights of the Global Value Chain Initiative, since it evolved from a public perspective and aims at economic growth as a means to achieve poverty alleviation. In addition, it is apt for studying social and environmental sustainability, governance and uneven power and wealth distributions along the chain.

### **Definition used by the Partnership Resource Centre**

This definition combines insights from the Global Value Chain Initiative and GTZ. The Global Value Chain Initiative defines a value chain as “the full range of activities that firms and workers do to bring a product from its conception to its end use and beyond. This includes activities such as design, production, marketing, distribution and support to the final consumer.” GTZ states that: “All operators adding value to a particular marketable product on its way from raw material to the final consumer are considered part of the chain. Value chain promotion harnesses market forces to achieve development goals. The GVC concept evolved from a public perspective and aims at economic growth as a means to achieve poverty alleviation. Value chains are not only an economic concept but also constitute social systems in which people interact.”