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# Value chain: what are we talking about?

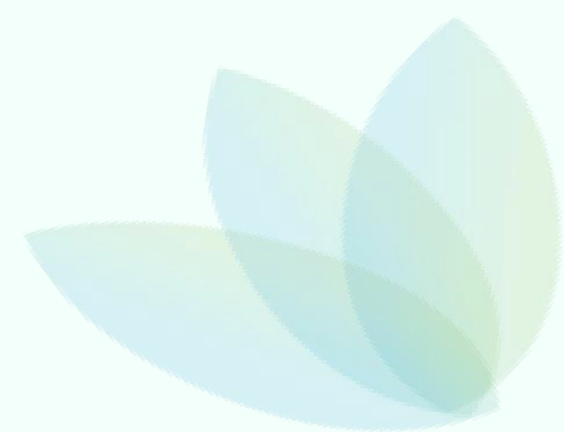
Frederic Lançon

Frederic.lancon@agrinatura-eu.eu



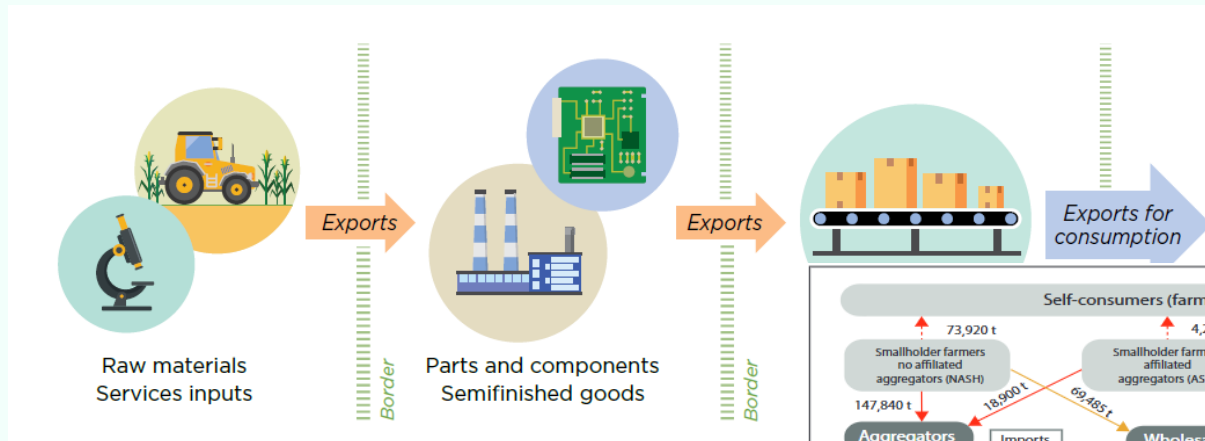
# Value Chain: an ambiguous term

- ❑ “Value chain” is a concept widely used in the realm of development
- ❑ Other terminologies are also used such as: **Supply chain, Marketing chain, Commodity System**, *filière* (in French) , **Agribusiness, Global Productive Network, Productive system, Clusters....**
- ❑ Are they substitute? Do they refer to the same conceptual framework?  
Do they lead to similar outcomes, priorities for decision making?

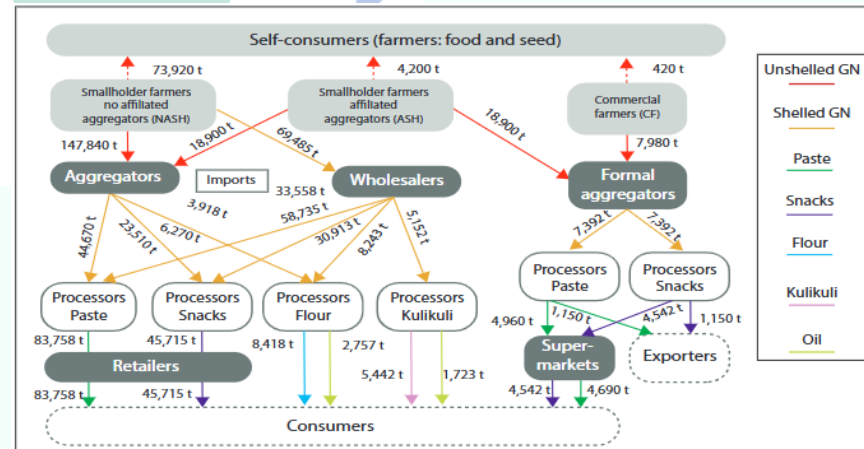


# A common representation

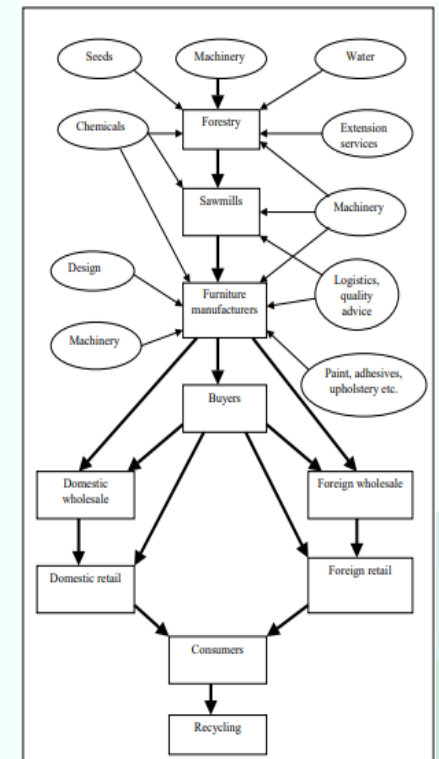
- ❑ A sequence of actors in the economic system that are operating interdependently to produce and process raw material and intermediate goods into finished good for end user.



Supply chain



Commodity system



Value chain

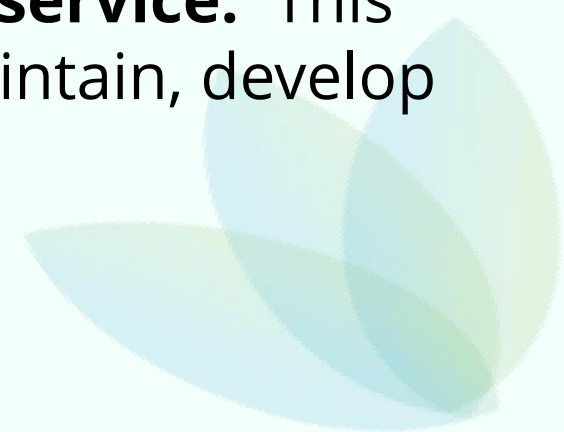
# Different analytical background and scope

- ❑ All these concepts have the following in common:
  - a system approach
  - consider time, space, sequence and flows in the economy
  - recognize the benefit of labour division and tasks (functional specialization, know how, return to scale)
  
- ❑ But they have been conceptualized in different disciplinary backgrounds
- ❑ They refer to different paradigms of economic development
- ❑ They address different issues for public and private policies, strategies formulation



# Value chain: from a management tool to a development paradigm 1/3

- ❑ **Porter 1985** has popularized the term VC in his book entitled *Competitive Advantage: Creating and Sustaining Superior Performance*
- ❑ Porter offers a framework to analyze **how a firm can sustain its competitiveness** by managing and fulfilling its operations either internally (integration) or externally (sub-contracting, outsourcing).
- ❑ The issue is to assess the position of the firm between its **suppliers of inputs and services and its clients purchasing output and service**. This is key to ensure the firm's competitiveness and capacity to maintain, develop its market share.



# Value chain: from a management tool to a development paradigm 2/3

- ❑ Gradually Value Chain concept is less used as a firm management tool while it is more focused on the **analysis of the entire system** from the production of raw material to the end products
- How to ensure that if I sub-contract or rely on external supplier I will get a product with the required characteristics?
- ❑ The analysis focus on the governance of the whole system.
  - The characterization of the governance systems relies on **institutional economic theoretical background** (institutional arrangements, transaction costs).
  - Coordination (market based, contractual, outsourcing, subsidiary) , flow of information, market structure (competition, monopoly)
  - Hierarchical relation: drivers of VC
- ❑ Supply chain
  - An offspring of the value chain
  - It aims to design the most efficient system to deal with input supplier and output delivery systems. This the realm of **Just in Time process**, inventory minimization, logistic mobilizing IT (B to B....)



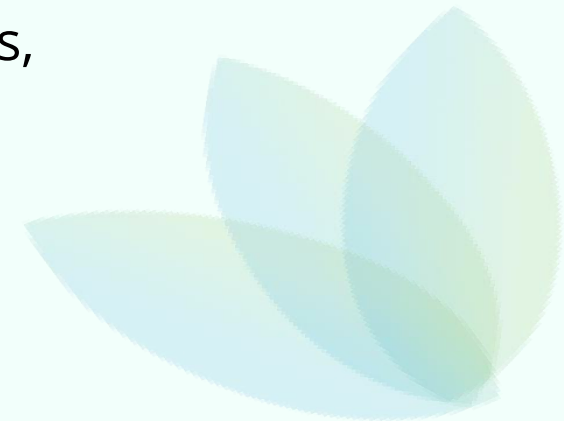
# Value chain: from a management tool to a development paradigm 3/3

- ❑ Since 1980 onward, trade and financial system liberalization, **decreasing transport cost** and **increasing efficiency of logistics** (containers) facilitate de/ re/localization strategies of firms based on the availability of production factors (resources, labour, capital, technology, mobility....)
- ❑ Global value chains are the engine of the globalization process.
- ❑ Globalization process sets the standard in terms of coordination (IT, norms,...)
- ❑ Development strategy refers to the **capacity of a country of being part of these value chains** and getting a higher position in the VC: upgrading - (more value adding activities)
- However the seminal work of Gereffi (1994) *Commodity Chains and Global Capitalism* show that other terminology is used



# From growth and development to commodity system

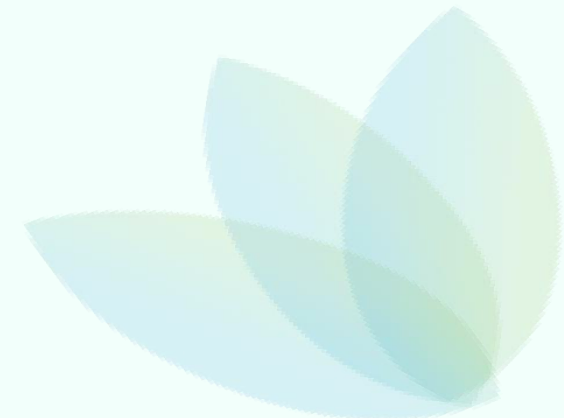
- ❑ National Accounting System providing a comprehensive picture of the economy was the key instrument for **economic planning and industrial policy** after WWII in developed and in developing countries
- ❑ For policy formulation the objective is to **identify leading sectors, industries that will have the higher spill over, leverage** on the economy in terms of wealth
- ❑ **Commodity system is conceived as a subset of output-input relations in the economic system linking actors** that have a high degree of interdependence and that should be simultaneously considered for policies, development strategies formulation





# Commodity system and agro-industrial transition

- ❑ Commodity system concept has been extensively applied to understand and support agricultural sector transformation
- ❑ Specific position of the agriculture in the development process
  - Agriculture became a provider of raw material to other sectors (processing , marketing)
  - Increasing distance between, production and consumptions sites (urbanisation, international trade)
- ❑ Agri food chains are conceptualized to monitor and lead agricultural transformation in developed countries (*Agribusiness* Davis and Goldberg 1957, *Market vertical link* Milhau 1954), and developing countries *Commodity system* by Stanford Food Research Institute in the 70's and 80's



# Analytical framework of CS

- ❑ Focus on technology
  - Technology/practice at the core of the system mapping
  - Take into consideration formal and informal relations among actors
- ❑ Distribution of net income across actors
- ❑ Economic impact at the **national level**
  - Creating of value added (not adding value)
  - Distribution of value added (wages, taxes, profit...)
- ❑ **Relations with macro-economic** dynamic and policy
  - Budget: Taxes and subsidies
  - Trade policy: balance of trade
  - Level of integration in the national economy



# Concept, decision making and action

## ❑ Value chain

- Norms and standard (private and public), business climate, FDI, property right...
- Governance system, collective action, institutional arrangement, information and empowerment
- Technology and innovation development and dissemination promotion, organisation

## ❑ Commodity System :

- Technology assessment and spill over, upstream and downstream effects
- Economic policy and transmission of incentive:
  - Public budget balance , subsidy, taxes
  - Trade policy: opening versus protection, tariff



# Analysing value chain analysis for what?

- ❑ Improving the VC efficiency (endogenous), development model (VC as a specific governance system)
  - Institutional arrangement, coop, contract, supply chains
  - Innovation, business model
  - Project based actions
- ❑ Using the CS as a leverage to respond to policy priorities (interaction with the whole economy)
- ❑ ... but also to understand broader issues and dynamics: using CS as “core sampling” into the complexity of the economy
  - Prioritization, policy formulation



# Multidisciplinary: beyond value chain economic analysis

## ❑ Social:

- VC: Governance, empowerment, collective action
- CS : income distribution, employment generation

## ❑ Environmental:

- VC : Enforcing , materializing norms
- CS: Balance of + and – negative impact within a broader system approach, flow of material, energy, pollution

- VC analysis cannot respond to all questions (partial analysis)
- VC and CS are not mutually exclusive and overlap
- Critical to match analytical approach with the addressed issues