INTERNATIONAL BUSINESS BLUNDERS

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INTERNATIONAL BUSINESS BLUNDERS: LESSONS FOR FUTURE MANAGERS

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emerald
PUBLISHING

United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2019

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-78769-220-6 (Print)
ISBN: 978-1-78769-219-0 (Online)
ISBN: 978-1-78769-221-3 (Epub)

To
Tracy-Ann Henry-Williams and Na'Ima Toni-Ann Williams

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Acknowledgments

Completing a manuscript is not an effortless task. Despite the name of a single author on the work in most cases, the final product is the result of strong teamwork and collaboration from a number of persons. It is, therefore, only appropriate that I recognise these extraordinary persons who have worked tirelessly and sometimes with little or no financial rewards but just for the joy of doing what they love to make the project come to fruition.

Let me first thank the editors at Emerald, Pete Baker and Katy Mathers for their guidance, patience and invaluable support over the period of the research process and writing of the manuscript. I will also like to thank the three anonymous reviewers for their very valuable feedback which have helped to improve the quality of the final product. The suggestions were useful and timely. Further, I will like to thank the librarians both at the University of the West Indies (UWI) and the Alliance Manchester Business School in the UK for allowing me to have access to critical materials for writing of this volume.

Thanks also to my research assistant, Mr. Tashfeen Ahmad. He was very dedicated to this project and executed his tasks with grace and equanimity. Thanks also to my ever-faithful proof-reader, Ms. Stephanie Cain. She has been a constant critic of all my works to ensure that persons, not in my field of scholarly work, understand the word that is written. This is an invaluable task for any academic project.

I will also like to express special thanks to all the hardworking executives in Caribbean enterprises who consented to be interviewed for this book. I know we took a lot of your valuable time when you could have been making much more profit for your firms, but you were willing to share your stories with us. Without these, the volume would not have been possible. I thank you immensely and do hope that you will find the output useful to your daily operations in the tough and sometimes, inhospitable world of international business.

My friends from both sides of the Atlantic, you are too numerous to name, but I could not do this without your continued morale support. You have been a source of motivation to me and also, a sounding board for my ideas. On many occasions, over drinks, I use you as sounding board for my ideas before I flesh them out further. Thanks as always for your friendship and continued encouragement.

Thanks also to the UWI for allowing me to use the *Study and Travel Grant* allowance to complete the writing phase of the manuscript. The financial support proved quite valuable.

Finally, I must express the deepest thanks to my family: my parents – Clarissa and Ronald; my siblings – Valerie, Patricia, Donovan, Delroy and Dwayne; and my nieces and nephews for their continued morale support. But most importantly, to Tracy-Ann and Naima for their love, patience and understanding as I spent an inordinately long time away from home to prepare this volume. This volume is dedicated to them, who are partakers in all my ventures.

Despite the many persons who I have thanked for assisting with this volume, all lacunae are mine.

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Preface

The work presented in this volume is motivated by previous work done on *Blunders in International Business*. Most notable is the work of David Ricks, Vice President of Academic Affairs at Thunderbird – The American Graduate School of International Management over two and a half decades ago. In 1993, Ricks produced a 172-page volume titled, *Blunders in International Business* published by Blackwell Business. The volume provided insightful and interesting anecdotes of mistakes firms made in all aspects of their international business operations, from production to finance. This work is a welcomed addition to the very scarce literature on mistakes that firms make in the international business arena. For, while we know that mistakes in business are inevitable, and especially so in the international business environment where cultural differences exist, legal and regulatory frameworks are different from what exists in the home country markets, social and business networks are not easily penetrated, among other things, we still have very little information on the types of mistakes that have been made and, more so, lessons that can be learnt from them. There is no doubt that the institutional and social differences between home and host markets make the task of managing in the international business environment much more onerous, and also, the chance of committing blunders is much higher. However, very few executives are willing to speak about the blunders that are made. They do not always see mistakes as inevitable and take them for what they are, but instead, they view them as failures and, as such, prefer not to speak on failures. It is clear, therefore, why the literature on business failures is so sparse despite the tremendous lessons that can be learnt from studying why companies fail (Campbell, Heriot, Jauregui, & Mitchell, 2012; Williams, 2014).

On the other hand, the literature on successes in business is quite extensive and executives are much more enthusiastic to speak on their successes. While it is similarly critical to understand why and how firms have become successful as Ricks (1993) pointed out, if the stories are not absolutely incredible, then one tends to forget about them and do not learn much valuable lessons from them. It must be understood that mistakes are not the flip side of success but have their own unique characteristics and, therefore, must be studied in detail in order to derive valuable lessons. This is why Ricks' work, over two and a half decades ago, made an important contribution to the field and to our knowledge in the area of blunders in international business.

However, despite the significance of the work done by Ricks, there are still some lacunae in the anecdotes and stories. A careful reading of the volume showed that the anecdotes are heavily biased to firms from developed countries that have done business in markets in other developed countries or in markets in developing countries. There is a very sparse amount of reference to firms from developing countries that are doing business in markets in developed countries, a directionality that has become prominent over the last two decades. Indeed, since Ricks' volume, the world has seen a large increase in multinational corporations from developing countries, especially those in East Asia moving to do business in markets in more developed countries in North America, Western Europe and Developed Asia. A new phenomenon that has also emerged is the rise in multinationals from other developing areas such as Latin America and the Caribbean that have now taken on greater urgency in doing business in the markets of the developed countries in North America, Western Europe and Developed Asia. Garvey and Shirley (2015) provided a good summary of how these multinationals, referred to as *Third World Multinationals*, have been moving across the globe in recent times. With this new development, invariably, there will be blunders along the way as the institutional, legal, regulatory and cultural landscapes are generally different in the developed world from those in the developing world. Importantly also, most of these firms that are moving from the developing world to the developed world are making their first foray into international business. As such, the chance of making mistakes is very high. Learning about these mistakes in this peculiar new circumstance can provide very valuable lessons for all executives, especially those from the developing world who are aspiring to do business in the international market and more so, in the markets in the developed countries in North America, Western Europe and Developed Asia.

This volume, *International Business Blunders: Lessons for Future Managers*, tries to make a modest contribution to our understanding of mistakes made by firms engaged in international business by focussing on those firms that are considered to be a part of the new phenomenon called, Third World Multinationals. This unique focus will fill a gap left by Ricks' (1993) work. More importantly, it will shed light on a set of firms that have received very little attention in the wider international business literature, but which have a substantial story to relate as to how firms from resource poor locations, with limited financial capital and limited technological capabilities, can operate and do so successfully in most cases, in the hostile and highly competitive global market landscape. The lessons that can be learnt from these stories are not only fascinating but can provide a lens through which executives from similar locations, facing like challenges, can view their aspirations to participate in the international business community. The lessons can help them better determine which markets to enter, when to enter the markets, the best market entry strategies to use, the best strategies to use to launch marketing and promotional campaign, among other things. It cannot be taken for granted that the stories and lessons from firms in large and developed markets can be easily replicated by firms in markets in developing countries, where external operating conditions and the internal dynamics of the firm are different and, in some cases, less sophisticated than what exists in the markets in large and developed countries. The need for context-specific area studies is very relevant in order to identify the idiosyncrasies of the firms in the particular environment.

The work presented in this volume focussed on the firms that have emanated from the Small Island Developing States of the Caribbean that have decided to do business in the markets in developed countries in North America, Western Europe and Developed Asia. These firms are by international standards, very small, to the extent that some scholars refer to them as Nano-firms (Bernal, 2006). However, despite their size, they have been operating successfully in the markets in the developed countries of North America, Western Europe and Asia. While there is a sparse literature on the factors that have contributed to their success (see e.g. Garvey & Shirley, 2015; Williams, 2015), there is comparatively less work on mistakes and blunders that they have made along the way. While blunders are inevitable along the way, given the significant difference between their home and host markets, comparatively less work has been done in recording the stories and anecdotes on these blunders. The work presented in this volume is an attempt to correct this lacuna.

The work reported on in this volume emanated from extensive research across the larger and more developed countries of the English-speaking Caribbean. It entails interviews with executives in firms that have and are still carrying out international business operations in the markets in developed countries in North America, Western Europe and Developed Asia mainly. Using the value chain analysis and, more specifically, Porter's (1985) conceptualisation of the value chain as the grounding framework with which to organise the work, the interviews focussed on blunders that are made at each node in the firms' value chain from marketing to relationships with governments in the host countries. The text then uses the qualitative technique of narrative analysis to analyse the data and present findings and lessons that can become useful to executives who have the aspiration to conduct business in markets in developed countries. The volume will also provide a useful teaching tool for persons who are taking courses in international business, business in a global environment, international management or general management programmes. The anecdotes and stories can be used as a useful teaching tool for group discussions and projects in graduate and undergraduate programmes alike.

International Business Blunders: Lessons for Future Managers provides a set of interesting anecdotes on the types of blunders that are made by the firms studied in the volume. Some of these make for fascinating reading. For example, in marketing, some managers have reported that they underestimated the sheer size of the US market and tried to adopt their distribution model that they use in the Caribbean to meet the demands of US wholesalers and retailers only to find out that the market size just does not allow for this to happen. Similarly, while one would think that being in business for a long time would give one the expertise to do what appears to be simple, for example, pricing a product in the international market. However, this task turns out not to be so simple for some of the firms that conducted their operations in the international business marketplace. International business managers lamented the challenges they had in determining the right price point for their products due mainly to the complex system of duties and taxes that are paid at the ports and, also, the difference in relationship with distributors. Fascinatingly also, is how cultural differences can lead to the weakening of morale in a team and impact negatively on the strategic and operational outcomes. Anecdotes are given of how Latin American and Caribbean cultures clash on American soil and what was done to resolve this episode in order to ensure that the company's objectives are met at the end of the day. Further, stories are told of how firms went to trade shows, confirmed with distributors that they can deliver on orders made and by the time delivery is to be made, the firms realised that they do not have sufficient capacity to fill the orders. This led to serious cost implications and reputational damage to the firms over time. Also, stories are told of how firms have to use various routes to recall products in order to stay within the confines of the rules and regulations of the host country markets. These are exciting and insightful anecdotes that are not meant to create humour but, instead, provide examples of the types of things that firms of similar nature which have an aspiration to go international should pay attention to. There are valuable lessons to be learnt.

The blunders committed have also had impacts (low employee morale, damaged reputation, legal battle and financial loss) on the firms but not to the extent where they have resulted in a complete shuttering of the business in those markets in the developed world. In fact, it is to the credit of adroit, disciplined and dedicated leadership that the firms continue to operate successfully in the markets in developed countries despite the inevitable setback from the mistakes made on their journey to internationalise their operations. Despite these impacts, the most important things are the valuable lessons that executives have learnt from reflecting on the blunders. These lessons include, never to generalise, become culturally literate, always do context-specific market research and build social and business networks. These very valuable lessons have been crucial in helping to avoid future mistakes and also minimise the impact of the mistakes already made.

While the text is heavily focussed on blunders made by Caribbean firms when they go international and especially to the developed markets in North America, Western Europe and Developed Asia, the anecdotes on blunders are not exclusive to these firms. Drawing on the academic and practitioner literature, blunders made in the broader field of international business operations are also reported on in order to internationalise the readership of the material presented in this volume. The blunders from the literature are sometimes shared in exhibits or direct quotation from academic and practitioner sources. Readers can compare and contrast the blunders made in the broader international business arena with those made by the firms in the specific area of study. This will lead to a greater ability to replicate the findings in other jurisdictions.

Chapter 1

Introduction

Background

Over the last two and a half decades, the direction and pattern of foreign direct investments (FDIs) flows have changed dramatically compared to the early period post-World War II. The direction was almost uni-directional during the period immediately after the world war when multinational firms moved their operations overseas more rapidly to generate greater value for their shareholders. The general pattern was that multinational enterprises from the rich developed countries in the North (mainly, North America, Western Europe and Developed Asia) were moving operations to other developed countries and also developing countries in the South (Peng, 2004). Fast forward to the 1980s, this pattern has changed significantly, thanks to the many intervening forces of technological advances; information and communication technologies (ICTs; the role of the Internet, mobile telephony and satellites); advances in transportation, which provided increased speed and lower cost of delivery; deregulation of financial markets, especially the removal of controls on foreign exchange and capital flows; and importantly, the new wave of neoliberal economic policy thinking with privatisation and free trade as the dominant ideological thinking that were working simultaneously. These forces have brought about a significant rise in multinational corporations from the developing world moving their activities to international and global markets that were once seen as forbidden by firms from these locations.

This pattern of behaviour was not only observed by academics (e.g. Cuervo Cazurra, 2012; Lall, 1983; Wells, 1983) but also supra-national policymaking bodies as well. Indeed, it is the United Nations Conference on Trade and Development (UNCTAD, 2004) which noted:

> There has been much talk about the emerging new geography of international trade, referring to the growing importance of developing countries in North-South trade and the rise of South-South trade as well. It seems, however, that this new trend

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doi:10.1108/978-1-78769-219-020191002

> is not confined to trade relations alone. Similar patterns are also emerging in international investment flows, suggesting the possible emergence of a new geography of international investment relations…. Annual foreign direct investment (FDI) outflows from developing countries have grown faster over the past 15 years than those from developed countries. (p. 1)

Now that there has been a rise in multinationals from the developing world, both the academic and practitioner literature have started to pay attention to the characteristics, nature, patterns, strategies and general operations of these firms. Hitherto, there was very little attention paid to firms from these locations as they were not considered to be a part of the mainstream actions in the international business arena (Garvey & Shirley, 2015). Still, the general literature is replete with examples of how firms from developed countries behave when they enter markets in other developed and also developing countries (e.g. Buckley & Ghauri, 2015; Dunning, 1980; Lall, 1995; Peng, 2004; Peng & Meyer, 2016; Ricks, 1993). Very little is known about the behaviour, strategies and operations of firms that have moved from developing countries to do business in markets in developed countries (Barclay, 2015; Garvey & Shirley, 2015). Further, even where there is evidence of work on multinational firms that have moved from developing countries to markets in developed countries, this evidence is normally skewed towards firms from much larger developed countries such as India, China, Brazil, South Korea, among others (Cuervo Cazurra, 2012; UNCTAD, 2004). Generally, there is very little evidence on how firms from smaller, developing economies, such as those of the Caribbean and other Small Island Developing States, operate in the global economies. The efforts by a handful of scholars in this area (e.g. Barclay, 2015; Cuervo Cazurra, 2012; Garvey & Shirley, 2015; Williams, 2015; Wint, 2003) have provided a departure from the norm in this line of work. Still, most of those works focussed on the success stories of the firms and very little is known about the mistakes they have made while operating in more developed and sophisticated markets that are both psychically[1] and physically different from their home base. It is the aim of this book, therefore, to depart from this tradition and provide a detailed account of the blunders that firms, which have moved from markets in developing countries to operate in markets in developed countries, have made. These will provide valuable lessons for future managers who are aspiring and strategising to move operations from their domestic base to markets in developed countries across the globe.

Importantly, if firms from these developing countries are to continue to grow shareholder value and to ensure their long-term survival, they will have no choice but to seek markets outside of their domestic environment, as the competition from

[1]Psychic distant is a term used in the general academic literature in International Business and International Entrepreneurship to describe the differences between markets in-terms of their institutional, economic and physical make up. For a more detailed definition, see O'Grady and Lane (1996).

international firms is not restricted to their operations when they move out into markets in developed countries, but it also finds its way into their domestic markets. It is exactly because of this heavy competition in their small domestic markets why most of these firms will have to internationalise their operations either to other similar markets in other developing countries or to markets in developed countries.

So this book makes the unassailable assumption that international business operations will be key for the future survival of the firms (both multinationals and smaller firms) within the Caribbean region. Critically, however, international business operations in more psychically distant markets will even be more relevant given the wealth of the customers in those markets, as well as the large diaspora populations that reside in those locations. Therefore, multinationals and small- and medium-sized firms from developing countries like those in the Caribbean will have to get comfortable with operating in markets in large and developed countries. The lessons that are provided in this book will go a far way in helping managers to plan for their future entry into the international marketplace in these large and developed countries.

Focus on the Caribbean

The Caribbean is a fertile ground for this type of research given that not much is known about the behaviour of the enterprises from this location that have moved into markets in large developed countries, especially of North America, Western Europe and Developed Asia. Since the 1990s, a significant number of Caribbean firms have moved their operations into developed country markets in order to increase shareholder value, drive up their market-share and to ensure their long-term survival. Garvey and Shirley (2015) provided a detailed account in 15 case studies of firms from the Caribbean that have gone international and have operated in markets in large developed countries. While they provide an account of the struggles those firms face, the general area of work covers the successes, strategies and economic behaviour of those firms. This volume will be different, in that, it will focus on the blunders firms from this region made while operating specifically in the markets in large and developed countries. This will be similar to Ricks' (1993) work on 'Blunders in International Business', but unlike Ricks', the geographic scope is novel and unique. This uniqueness will add great value to the broader practitioner and academic literature, as hitherto, no work of this nature has been done on this geographic area.

The Caribbean is a diverse and unique geographic space. What is referred to as the Caribbean includes an arch of countries which extend southward just off the tip of Florida in North America to the seas Northwest of Venezuela in South America. With over 25 territories and a population of over 30 million people (this includes the Dutch, Spanish, French and English-speaking territories), it is reported that there are over 7,000 islands, cays and islets which make up the space we call the Caribbean (Garvey & Shirley, 2015). Clearly, with its rich heritage and diversity, the Caribbean provides a fertile ground for research of this nature. However, given the limitations of time, financial resources and also the key consideration of the research topic and what it hopes to achieve, the study was limited to the English-speaking territories of the region. These territories make up what is known as CARICOM, the regional integration movement in the English-speaking Caribbean. CARICOM has 15 member countries with the majority having populations of under 200,000 peoples. The larger countries of CARICOM are Jamaica, Trinidad and Barbados with populations of 2.9 million, 1.2 million and 292,000, respectively. Table 1.1 provides a brief summary of the key characteristics of these economies along with the major developed countries with which they generally do business.

Further, given the countries' economic role and their political clout, they also have the greatest coverage in the region. Indeed, most of the firms that have moved from the region into international markets in the developed countries have their headquarters domicile in these three locations. The cases on the various blunders that these firms have made in their international foray into markets in the large and developed countries will no doubt serve as important information for other managers, from other developing markets, who are planning to do business in markets in large and developed countries. The lessons in the book will serve as vital tools that can be incorporated into international strategic planning sessions and management training sessions for executives. Further, unlike previous works on this subject, this book will focus more on the value chain activities of the firms rather than the individual case of a single company. This approach will make the results much more comparable and also generalisable.

Grounding the Work in Academia

Value chain analysis provides a useful theoretical foundation to ground the current study. A value chain can be described as the full range of activities that firms and workers do to bring a product or a service from its conception to its end use and beyond. The activities that comprise a value chain can be contained within a single firm or divided among different firms. Similarly, they can be contained within a single geographical location or spread over wider areas (Gereffi, 1994; Porter, 1985).

Since Porter (1985), the concept of value chain has been used in economics and management to shed light on a number of critical management and economic development questions. Indeed, there are various frameworks that have been used to better understand the behaviour of firms, industry sectors and the general performance of an economy. However, a closer reading of the extant literature seems to suggest that the most enduring of these is the value chain framework (Gereffi, 1994). The framework is used as a tool to organise firms, industries or economies into major activities that will allow for the clear identification of sources of value and competitive advantage. As such, the concept has found favour with many scholars in economics, management and the wider fields of business studies (Abecassis Moedas, 2006).

Research on value chain analysis has had a long history of development. For example, an early exposure to value chain work started when the French, in the 1960s, began mapping out the physical flows of commodities (Raikes, Jensen, & Ponte, 2000). The term *filière*, which means channel, was given to this flow.

Table 1.1: Characteristics of Countries Studied.

	Jamaica	**Barbados**	**Trinidad and Tobago**	**USA**	**CANADA**	**UK**
Population size	2,990,561 (July 2017 est.)	292,336 (July 2017 est.)	1,218,208 (July 2017 est.)	326,625,791 (July 2017 est.)	35,623,680 (July 2017 est.)	65,648,100 (July 2017 est.)
GDP growth (real)	1.7% (2017 est.)	0.9% (2017 est.)	−3.2% (2017 est.)	2.2% (2017 est.)	3% (2017 est.)	1.7% (2017 est.)
GDP per capita	$9,200 (2017 est.)	$17,500 (2017 est.)	$31,200 (2017 est.)	$59,500 (2017 est.)	$48,100 (2017 est.)	$43,600 (2017 est.)
Labour force	1.325 million (2017 est.)	142,900 (2017 est.)	629,400 (2017 est.)	160.4 million (2017 est.)	19.52 million (2017 est.)	33.5 million (2017 est.)
Major industries	Agriculture, Mining, manufacture, construction, financial and insurance services, tourism and telecommunications	Tourism, sugar, light manufacturing and component assembly for export	Petroleum and petroleum products, liquefied natural gas, methanol, ammonia, urea, steel products, beverages, food processing, cement, and cotton textiles	Highly diversified, world leading, high-technology innovator, second-largest industrial output in the world; petroleum, steel, motor vehicles, aerospace, telecommunications, chemicals, electronics, food processing, consumer goods, lumber and mining	Transportation equipment, chemicals, processed and unprocessed minerals, food products, wood and paper products, fish products, petroleum and natural gas	Machine tools, electric power equipment, automation equipment, railroad equipment, shipbuilding, aircraft, motor vehicles and parts, electronics and communications equipment, metals, chemicals, coal, petroleum, paper and paper products, food processing, textiles, clothing and other consumer goods

Table 1.1: (*Continued*)

	Jamaica	**Barbados**	**Trinidad and Tobago**	**USA**	**CANADA**	**UK**
Currency	Jamaican dollars (JMD)	Barbadian dollars (BBD)	Trinidad and Tobago dollars (TTD)	US dollar	Canadian dollars (CAD)	British pounds (GBP)
FX rate	128.5 JMD per 1 USD (2017 est.)	2 BBD per 1 USD (2017 est.)	6.76 TTD per 1 USD (2017 est.)	1 USD	1.31 CAD per 1 USD (2017 est.)	0.78 GBP per 1 USD (2017 est.)
Legal system	Common law system based on the English model	English common law; no judicial review of legislative acts	English common law; judicial review of legislative acts in the Supreme Court	Common law system based on English common law at the federal level; state legal systems based on common law except Louisiana, which is based on Napoleonic civil code; judicial review of legislative acts	Common law system except in Quebec, where civil law based on the French civil code prevails	Common law system; has nonbinding judicial review of Acts of Parliament under the Human Rights Act of 1998
Type of Government	Parliamentary democracy (Parliament) under a constitutional monarchy; a Commonwealth realm	Parliamentary democracy (Parliament) under a constitutional monarchy; a Commonwealth realm	Parliamentary republic	Constitutional federal republic	Federal parliamentary democracy (Parliament of Canada) under a constitutional monarchy; a Commonwealth realm; federal and state authorities and responsibilities regulated in constitution	Parliamentary constitutional monarchy; a Commonwealth realm

Sources: Various Issues of the IMF publication, World Economic Outlook, UNCTAD, Publication: Word Investment Report, World Bank and World Development Report.

The *filière* approach examined the activities along the chain to ensure flows of supplies from the production stages to the final consumer. Indeed, it is this thinking that contributed to the concept of a chain, that is, flow of activities. This, therefore, became the most essential conceptual feature of modern value chain analysis.

Later, William Friedland (1984) introduced the concept of 'commodity systems' as a systemic configuration of labour and other inputs (both social and economic) towards the creation of a commodity for the final consumer. Also, in the 1980s, world system theorists coined the term 'commodity chains', which refers to a network of labour and production processes whose end result is a finished commodity (Hopkins & Wallerstein, 1994). Further, Gary Gereffi (1994) came up with the most coherent framework which defined global commodity chain (GCC) as 'a set of inter-organizational networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world-economy' (p. 2). Gereffi (1994, 1999) developed the commodity chain approach that focussed on the firm-level according to four main dimensions: input–output structure, territoriality, governance structure and institutional framework.

Further, the edited work by Gereffi and Korzeniewicz (1994) led to the evolution of the commodity chain concept as micro-level relationships between individual firms for international coordination of production and marketing. For example, Bair (2005) made a poignant observation that commodity chains and value chains are two separate concepts, albeit, similar concepts. Bair (2005) observed that the value chain approach focusses more on the question of how interfirm relations are shaped by the internal logistics of sectors such as industry structure and production-process characteristics. Critically, the characteristics are more technical or organisational in nature, with less attention devoted in the value chain scheme to the external factors which shape chain dynamics and the distribution of value added along the chain.

While the concepts of value chain and commodity chain might appear to be different, it is important to note that since the early twenty-first century, the term *global value chain* (GVC) is being used more generally, irrespective of the conceptual direction of the dialogue. According to Gereffi, Humphrey, Kaplinsky, and Sturgeon (2001), the expression, *GVC*, was selected because it was perceived as being the most inclusive of the full range of possible chain activities and end products. Indeed, it is posited that GVCs explain how firms are globally interconnected, identifying the 'lead firms' and the contact they have with other firms within the value chain (Gereffi & Kaplinsky, 2001). Further, Gereffi, Humphrey, and Sturgeon (2005) pointed out that important costs in value chains are generated by global buyers even though they do not own the product.

Arguably, the biggest breakthrough in the value chain research came about with Porter's (1985) popularisation of the concept, especially at the firm level. Michael Porter (1985) presented 'value chain theory' to analyse the network of activities in a firm that are geared towards the improvement of the production processes to capture greater value (Porter, 1985). However, even before Porter's popularisation of the concept, researchers had already started to conceptualise chains as a single entity (Oliver & Webber, 1982). Forrester's (1961) 'Industrial

Dynamics' conveyed the idea of managing all components of supply chain operations as one big entity. Al-Mudimigh, Zairi, and Ahmed (2004) opined that supply chain, value chain and customer chains are the same. On the other hand, Rainbird (2004) refrained from interchanging 'value-chain' and 'supply chain'. The consensus in academy on this issue is generally low.

Despite the low consensus, it is important to note that in the 1980s, supply chain management literature highlighted the significance of building mutually helpful business partnerships. It was around this period that the concept of value chain originated from the supply chain and business strategy literature (Porter, 1985) and commodity chains (Hopkins & Wallerstein, 1994). While Porter was not the first to conceptualise the value chain in the context of the supply chain literature, his contribution to the concept of a value chain within a firm, between the firm and its suppliers, was most noteworthy. It has changed the way research, using the value chain framework, is carried out.

An important development in Porter's (1985) contribution to this stream of work is that he has brought more precision to the concept of value, by including better coordination, that is, governance and constant upgrading. However, it was Gereffi (1994) who then gave a more coherent definition of governance in the context of the chain. Gereffi (1994) defined governance as 'authority and power relationships that determine how financial, material, and human resources are allocated and flow within a chain' (p. 97). The inclusion of power signifies a key input to the value chain literature. Further, Gereffi et al. (2005, p. 87) suggested five types of GVC governance. The five types of GVCs governance identified by Gereffi et al. (2005) are the following:

1. *Market governance* which looks at contractual arrangements with third-party firms to manufacture goods on behalf of the lead buyer.
2. *Modular governance* which facilitates greater coordination between the parties responsible for different stages of the value chain.
3. *Relational governance* which is useful when the complexity of the supply chain ensures tighter coordination among the different stages of the value chain.
4. *Captive governance* which can effectively substitute for lead firm ownership of the manufacturing assets when dedicated production lines are a strategic driver for the lead firm.
5. *Hierarchy* which maximises control over procurement, production processes and intellectual property.

The five types are based on three variables: (1) *complexity of inter-firm transactions,* (2) *degree to which this complexity can be mitigated* and (3) *the extent to which suppliers have the necessary capabilities to meet the buyers' requirements*.

In addition, Gereffi (1999, p. 43) proposed two distinct governance structures: (a) the producer-driven commodity chains, that is, capital-intensive industries (e.g. automobiles) and (b) the buyer-driven commodity chains, that is, labour-intensive industries (e.g. apparel).

Despite the lack of consensus around the concept of value chain in the extant literature, it is still critical to note that the conceptual thinking behind the framework