

# Public & Private Sector Roles In Export Cluster Development: Cut Flowers from Southern Africa

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# World Market for Fresh Cut Flowers

- Major consumption centers: Europe, North America, Japan
- Major suppliers: Holland, Colombia, Israel, local producers
- Price based on quality
- Ultra-sensitive, highly perishable knowledge-intensive product
- \$25 b. sales, rapid growth

# Requirements for Global Competitiveness

- Competitive advantage, cf. comparative factor advantages (Fairbanks & Lindsay 1997; Porter 1990)
- Sophisticated local market (Porter 1990)
- Industry clustering - feature of advanced economies (Porter 1998)
- Knowledge, experience, infrastructure

# Conditions in Southern Africa in early 1980's

- Virtually no local market
- Limited flower production expertise
- No knowledge of foreign markets
- Underdeveloped infrastructure

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- Desire to diversify exports
- Factor advantages: climate, labor
- Private support/advising services

# Chances of Success:

Minimal.

# Achievements by mid-1990's

- Development of globally competitive floriculture export cluster in Southern Africa
  - Based in Zimbabwe
  - Branches in Zambia, South Africa
  - Limited success in Malawi
- Annual exports > US\$100 m.

# Research Questions

- How did such unlikely export development occur?
- Why has success been unevenly distributed?
- Can lessons be generalized and transferred to other industries and regions?

# Method

- Case study of Southern Africa floriculture cluster
- Secondary data
- Field study: Zimbabwe, Zambia, South Africa, Malawi, Holland
- In-depth personal interviews with key industry participants

# What's a cluster?

## Structural View (Porter 1998)

- *Geographic concentration* of interconnected companies and institutions in a particular field
- *New spatial organization form* between markets and hierarchies
- Alternative way to organize value chain:
  - enjoy economies of scale
  - stay flexible

# What's a cluster?

## Behavioral View (Rosenfeld 1997)

- Production system *embedded in local social system*
- *Continuous flow* of information, technological advances, innovations, skills, people, capital into/out of/ and within cluster
- *Underlying dynamics*: key to synergy, competitiveness
- *Regenerates itself* by spawning new firms/clusters

# How clusters differ from networks *(Rosenfeld 1997)*

## Networks

- common business goals
- based on contractual agreements
- based on cooperation, collaborative activities
- restricted membership
- access to specialized services at lower cost
- make it easier for firms to engage in complex business

## Clusters

- collective visions
- based on social values that foster trust/reciprocity
- cooperation & competition
- *open 'membership'* based on interdependence and contribution to system
- *attract* needed specialized services to a region
- *generate* demand for more firms with similar and related capabilities

# How clusters differ from Industrial policy (*Porter 1998*)

## Industrial Policy

- some industries offer more potential
- these should be targeted for support
- competitive advantage depends on increasing returns to scale
- governments should nurture priority infant industries
- eliminate 'wasteful' internal competition

## Cluster theory

- all clusters can be desirable, contribute to prosperity
- how an industry competes is what matters
- all existing/emerging clusters merit attention
- welcomes all firms (incl. foreign)
- focuses on removing constraints to productivity

# Initial constraints on development of Southern African flower exports

- Knowledge base
- Access to capital
- Input availability
- Climate
- Infrastructure
- Freight - frequency and reliability
- Access to marketing channels
- Poor image in market
- Policy environment

# Catalysts to challenge constraints

*Pre-existing successful agro-industry cluster (tobacco) in Zimbabwe seeking:*

- Investment opportunities
- Product diversification
- Off-season cash flow
- Overcome exchange controls
- Overcome water scarcity
- Use for surplus freight capacity

# Key to export diversification (I): Pre-existing *successful* other cluster

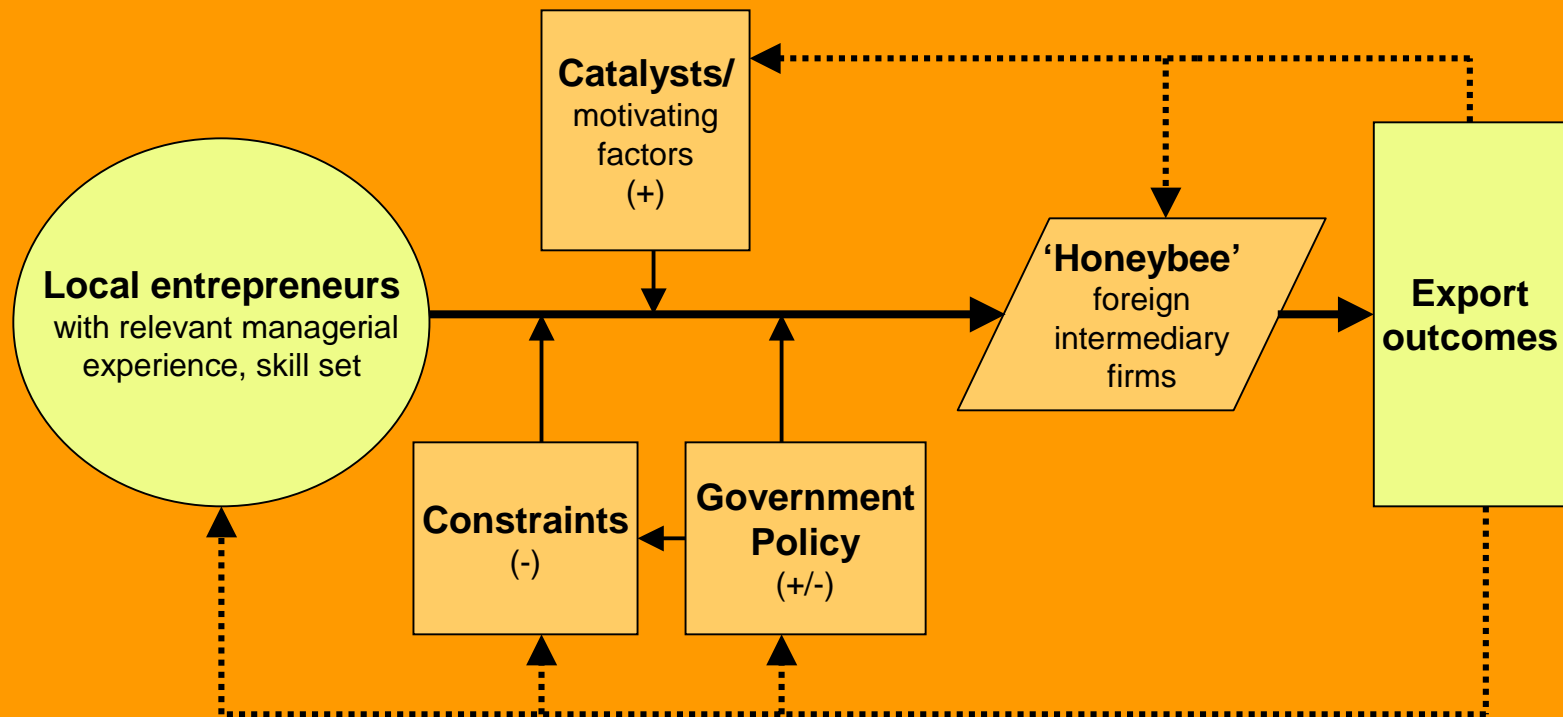
- Provides base of relevant managerial experience, skills
  - 'Absorptive Capacity' (Cohen & Levinthal 1990)
- Pre-existing social linkages accelerate development of new cluster
- Only successful clusters can initiate, manage own diversification
  - sectors in decline attract political concern, intervention
  - e.g., tobacco in Zimbabwe vs. tobacco in Malawi

# Key to diversification (II): 'Honeybees' link clusters, spread knowledge

## Foreign intermediary firms needed to:

- Overcome initial knowledge constraints
- Disseminate knowledge
- Facilitate learning, imitation, innovation
- Expand cluster within/across borders
- Link local production cluster to overseas clusters (markets, suppliers)
- Overcome 'country-of-origin' bias

# A dynamic model of non-traditional export development



# Role of government

## Did:

- Create general conditions for new cluster development
- Allow entry and operation of key foreign intermediaries
- Respond to industry pressures to facilitate business

## Did NOT:

- Single out flowers for directed attention or credit
- Seek to control institutional arrangements that emerged
  - including links to market or market information

# Role of private firms

- Non-traditional export diversification requires motivated entrepreneurs
  - with suitable experience and skills
  - pioneers from successful other cluster
- New firms must link up with Honeybees
  - to fill knowledge gaps, link to markets, further expand cluster
- Recognize value of surrounding cluster
  - contribute to development and collective health of cluster

# Lessons from Africa

- Clusters are important unit of analysis in export development / diversification
- Competitive exports can develop in absence of local market (cf. Porter 1990)
- Sophisticated, successful clusters can develop in LDC's (cf. Porter 1998)
- Suitable conditions will attract missing elements (cf. Rosenfeld 1997)
- Factor advantages can be foundation for sustainable competitive advantage (cf. Fairbanks & Lindsay 1997; Porter 1990)

# Future research

- Test model
  - examine other cases of successful / unsuccessful export development
- Extend model
  - cover new clusters, trade within / between advanced economies
- Develop appropriate instruments
  - public/private policies, investments
  - nurturing non-traditional clusters

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