
FLEMING Euan, GRANT Bligh, MOUNTER Stuart, GRIFFITH Garry
UNE Business School, University of New England, AU
efleming@une.edu.au, bgrant5@une.edu.au, smounte2@une.edu.au, profgarrygriffith@gmail.com

Abstract

The putative benefits of both collective action between firms and collaboration more generally have been suggested as ways to alleviate the problems of the Australian wine industry, as well as to increase its overall productivity and contribution to regional economies (see, in particular, Sheales et al, 2006). However, salient approaches to the identification of collaboration and collective action have lacked analytic rigour. Following a critique of what we identify as the ‘institutional approach’ derived from Zanni et al. (2006) and the ‘cluster approach’ derived from Porter (1998), this paper argues that the public finance literature, in particular work derived from Oakerson’s (1999) discussion of shared services can be deployed to provide a useful system of classification of collaborative and collective action. Treating the value chain as a ‘club’, we then consider the Grape and Wine Research and Development Corporation (GWRDC) as an example of a vertical shared service and reflect upon implications of the paper for the Australian wine industry.

JEL classification: L32, L38, Q13

Keywords: Chain good, collaboration, collective action, value chain, Grape and Wine Research and Development Corporation (GWRDC).
1. Introduction

The Australian wine industry continues to be adversely affected by the oversupply on global markets. For example, in 2010–11, 47 per cent of all wine exports were in bulk wine, compared with 40 per cent in 2009–10 and 13 per cent in 2000–01. Further, approximately 67 per cent of all wine exported had a value of less than $5.00 a litre, compared with 41 per cent in 2000–01 (Gunning-Trant and Shafron 2012, p. 5; Fickling 2013). This change in the demand profile has also had a significant impact on grape prices, with the average price per tonne for red wine grapes halving in real terms between 2000-01 and 2010-11 and the price for white wine grapes decreasing by approximately one-third across all varieties in the same period (Gunning-Trant and Shafron 2012, p. 6).

Although overall production has declined by only 1 per cent per year from the peak year of 2005, the decline has been spread very unevenly across different geographic zones from year to year. For example, in 2010-11 significant decreases in production were recorded in South Australia’s Limestone Coast (37 per cent), and in both the North East Victoria zone and North West and Western Victoria zone (by an average of 27 per cent), while in the major warm-climate geographic zones of Murray-Darling/Swan Hill and Big Rivers zones production remained relatively static, contributing approximately 62 per cent of total production. Alternatively, production in the Central West region of NSW increased by 38 per cent to 29,000 tonnes and in the Greater Perth region of Western Australia an increase of 9,000 tonnes, or 35 per cent, was recorded (Gunning-Trant and Shafron 2012, pp. 1-2).

Sheales et al. (2006, p. 3) recognised the looming magnitude of the problem half way through the past decade, emphasising that ‘in real (net of inflation) terms, wine grape prices in 2004-05 were only one-third of their level in 1997-98’. They identified six ‘strategies that can be expected to contribute to improved competitiveness’ (Sheales et al. 2006, p. 5) that can be summarised as follows:

1. Increasing the average size of grower operations (partly through smaller operators leaving the industry) so as to realise scale efficiencies;

2. Adjusting business models through more contracting, leasing, share farming and cooperative arrangements designed to achieve better financial performance for growers and the industry as a whole;

3. Maintaining or increasing investment in research and development [R&D] aimed at developing and adopting new technologies to increase on- and off-farm productivity;

4. Developing improved relationships between wineries and grape growers to ensure that information flows will better equip industry participants to respond to new and emerging market trends;

5. Maintaining an appreciation of global and domestic supply chain dynamics to allow growers and wineries to better position their businesses and products; and

6. Developing value adding opportunities that satisfy changing consumer demands.

Examining these six recommendations, the collective nature of all activities is immediately apparent. Recommendation 2 requires the investigation of different types of collaborative and
collective action at different points in production. Recommendations 3, 5 and 6 all involve the development of collective, or pooled, knowledge bases: one with respect to R&D examining both on-farm and off-farm activity; one with respect to global market trends; and one with developing opportunities for value-adding, an activity that is readily conceived as taking place involving a number of participants in the wine industry writ large. Recommendation 4 suggests greater vertical cooperation between grapegrowers and winemakers. Only recommendation 1 (consolidation) can be reasonably considered to fall within the ambit of particular producers.

Two conceptual approaches to the examination of collective action in the Australian wine industry can be identified. First, what we will label the ‘institutional approach’ has focussed on providing an account of ‘wine organisations’, providing an account of the links between these institutional formations (e.g. Zanni, et al. 2004). Second, and by far the most salient in the Australian context, is the cluster modelling approach. Recent examples have included Aylward’s (2006) study of export linkages in the Australian wine industry. Aylward (2006, p. 424) emphasised the distinction between clusters as [i] ‘spontaneous groupings of firms’ and [ii] ‘constructed clusters’, such as industrial parks, that are engendered with a specific goal in mind. Aylward (2010) used a similar approach to compare innovation support among New World wine producers. More recent work has focussed on particular geographically defined wine clusters as well as ‘virtual’ clusters. Australian examples of geographically defined wine clusters include Wickramasekara and Bamberry’s (2009) study of Stanthorpe in Queensland’s South East, Henderson et al.’s (2009) investigation of the Hunter valley wine region conceived in cluster terms, and studies by Mitchell et al. (2009) and Grimstad (2011). An example of a ‘virtual’ cluster is provided by Sellitto and Burgess (2005) who studied government-sponsored internet portals for regional wine groupings.

Nevertheless, arguably a lack of conceptual and theoretical rigour is characteristic of this work. For example, as pointed out by Enright and Roberts (2001), if a definition of cluster types includes government-sponsored attempts at developing regional economic development centred on particular industries, it is clear that federal government policy has been directed to this policy goal since at least the mid-1990s. The lack of conceptual and theoretical rigour found in this work renders it as overwhelmingly descriptively sociological in nature, rather than investigating the types of collective and collaborative arrangements from a political economy perspective (for an exception, see Marsh and Shaw 2000).

In light of the promise held in a multiplicity of types of collective action by Sheales et al. (2006) and the paucity of conceptual rigour underlying cluster analysis, wherein economies of both scope and scale are inferred or assumed to arise from what might be termed ‘firm association’, the present paper draws on two lines of inquiry. The first line is drawn from the public economics literature, namely the work of Oakerson (1999), to suggest a conceptual framework for the analysis of firm association. The second line of inquiry is from the club goods literature following Umberger et al. (2012) in defining what we term a chain good as a good or service in a value chain that nobody in the chain can be excluded from benefiting from its consumption, but people outside the chain can be excluded from benefiting.

The paper is divided into six parts. Section two examines the prevailing approaches to examining collective action in the Australian wine industry, namely the institutional approach and cluster analysis. We identify the scope of these methodological approaches as well as their limitations. Section three adapts Oakerson’s (1999) conceptualisation of shared services to the wine industry context. Section four undertakes a case study of the Grape and Wine Research and Development Corporation (GWRDC). Section five entails a brief evaluation of the relative merits of national and local public goods solutions and chain goods solutions to wine R&D and the final section contains some concluding remarks.
2. Approaches to identifying collaborative and collective action in the Australian wine industry

2.1. The institutional approach

Zanni et al. (2004) drew upon a sample of global wine regions to inform their study of the Tuscan wine industry. Their account of the Australian wine industry, and more specifically the Victorian ‘cluster’, exemplifies what we are labelling the ‘institutional approach’ to providing an account of collective action. They asserted that: ‘Nowhere else in the world’ had a national strategy for the wine industry been developed to the extent that had been attempted in Australia; further that ‘more than 80’ public and private organisations collaborate at national, state and local levels in developing long-term strategic plans which nevertheless perceived individual firms as part of the global wine industry. They sought to depict the ‘institutional thickness’ of industry organisations (e.g. Mitchell et al. 2009) using Figure 1.

Figure 1 is useful in the sense that it provides a ‘snapshot’ of organisations involved with the Australian wine industry. For example, the (then) Australian Wine and Brandy Corporation (now Wine Australia) is represented, with Zanni et al. (2004) listing its functions as ‘accomplish[ing] control activities on exported wine [in] guaranteeing compliance with importing country standards’ and ‘supervis[ing] the Label Integrity program and … establishing the regional boundaries in order to register Geographical Indicators’. The authors also note that the (then) AWBC ‘lobbies the government authorities to pursue the reduction of both tariff and non-tariff barriers to foreign import countries’ (Zanni et al. 2004, p. 54). Similarly, the authors note that several educational and training institutions are represented, including Roseworthy Agricultural College (established in 1883), the Australian Wine Research Institute (AWRI) (established in 1955) and the Grape and Wine Research Development Corporation (GWRDC) (an Australian statutory authority established in 1988). Several sub-national industry bodies and research institutions are also represented. Zanni et al. (2004, p. 54 ff) then move to produce a similar schematic to depict what they refer to as ‘The Victorian Wine Cluster’.

Clearly, the usefulness of such an approach to describing collective activity in the Australian wine industry is limited. Most glaringly, such portraits are historically moribund due to the fact that many of the institutions rebrand, change functions or simply cease to exist. Further, there is no guarantee that such portraits are comprehensive. For example, Figure 1 does not include the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), which began in 1945 as the Bureau of Agricultural Economics and later became the Australian Bureau for Agricultural and Resource Economics (ABARE) before the change to its current name in 2010 when merged with the Bureau of Rural Sciences. It has been a key research and policy development institution for the wine industry for at least three decades (e.g. ABARES 2013). Moreover, the depiction of the relationships between institutions is worryingly inaccurate. Consider, for example, the place of ‘Regional Associations’ in the lower left of Figure 1. This suggests that they do not have any relationship with ‘State Associations’ (immediately above).
Figure 1. Australian wine industry organisations

Source: Adapted from Zanni et al. (2004, pp. 53).
From here, the criticisms become less obvious but more important, particularly in terms of providing an account of collaborative (and collective) behaviour in the Australian wine industry. For example, it might be tempting to divide the two types of institutions depicted in Figure 1 – governance institutions and industry associations – into (in turn) public and private forms of collaborative/collective activity. However, a moment’s reflection reveals that this taxonomy is simplistic. Many of the key governance and R&D institutions – the AWBC, now Wine Australia, for example – are statutory corporations (and as such, fall under the Corporations Act) rather than being purely government-funded. Similarly, many industry associations receive trickles of funding from federal, state and local government (e.g. Grant, Dollery and Gow 2010). As such, the traditional ‘public-private’ distinction is misleading (as is suggested in the cluster approach, described below). Further, the ‘snapshot’ assumes that relations between organisations are both ‘naturally’ hierarchical as well as being free from conflict. This is hardly the case either historically or contemporaneously (e.g. Grant, Gow and Dollery 2010).

Despite the functionalism of the institutional approach, it is important to emphasise that in undertaking such an exercise, Zanni et al. (2004, p. 54) are interested in cooperation as a type of activity and its contribution to the Australian wine industry: ‘Cooperation is not only meant to improve the efficiency of grape growing, wine making and marketing at the firm level, but also at the industry level’. Further: ‘The pursued aims of collaboration consist in the exploitation of externalities and the inhibition of free-riding behaviours of some wine agents’. Nevertheless, clearly their institutional sociology falls well short of engaging in explanation: its depiction of reality is misleading and we must look elsewhere.

2.2. The cluster approach

The second approach to collective and collaborative action examined here is the ‘cluster’ approach. In contrast to the institutional approach, which as we have seen purports to provide an account of collective and collaborative institutions, the cluster approach offers a description of a particular type of economic activity. It also posits a model, or prescription, for a type of economic activity. In order to explore the cluster approach and in particular its account of collective activity, we examine the original idea in some detail before offering criticisms of the model.

In the Australian context, a variety of work has been labelled ‘cluster analysis’ since 1993. For an overview, see Enright and Roberts (2001, pp. 72-74). Arguably, however, the most definitive statement of the theory of economic clusters was set down by Michael Porter in two essays, ‘Clusters and competition’ and ‘Competing across locations’, both of which were published in the collection On Competition in 1998 and republished in an updated and expanded edition in 2008 (Porter 2008). Porter’s 1998 article for Harvard Business Review, ‘Clusters and the new economics of competition’ summarises these arguments concisely and it is on this publication that the following account is based.

As is clear from the title of his 2008 book, Porter’s central concern in putting forward his idea of economic clusters was with the idea of competition per se. It was not with providing a description of regional economic activity, nor with regional economic development, both of which were only of residual importance in the original theory despite the fact that these latter concerns dominate some writing purporting to engage in ‘cluster analysis’ of specific areas of the Australian wine industry (e.g. Henderson et al., 2009; Mitchell et al., 2009). Our central concern is the role of collective goods and collective action as an element in Porter’s (1998) theory. To explicate this, we have to ‘drill down’ from the premises of the original theory. Due to the salience of the idea of clusters in analysing the wine industry, we think that ‘the game is worth the candle’ in this context.
Porter (1998) commenced with the observation that ‘[t]oday’s economic map of the world is dominated by what I call clusters: critical masses – in one place – of unusual competitive success in particular fields’ (emphasis added). He offered the instantly recognisable examples of Silicon Valley, with its ITC companies, and Hollywood, with its film industry as examples. He also asserted that ‘clusters are a striking feature of virtually every national, regional, state, and even metropolitan economy, especially in more economically advanced nations.’ In these contexts ‘the enduring competitive advantages in a global economy lie increasingly in local things – knowledge, relationships, motivation – that distant rivals cannot match’.

Porter (1998) provided a definition of this idea:

Clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition … includ[ing] governmental and other institutions – such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations – that provide specialized training, education, information, research, and technical support.

Immediately discernible is the inclusion, in Porter’s (1998) definition, of the types of institutions identified and described by the ‘institutional approach’ to collective action discussed above. However, importantly for our purposes, this definition also involves the activities of firms conceived in a traditional sense; in particular their interrelationships. Porter (1998) argued that clusters have risen to salience in recent years due to a change in the nature of comparative advantage and productivity derived from competition inherent in the idea. Whereas previously productivity was derived from the difference between places in terms of their capacity to most efficiently produce specific goods and services, for Porter (1998) productivity is now more determined by inter-firm relationships: ‘What happens inside companies is important, but clusters reveal that the immediate business environment outside companies plays a vital role as well’. It is apparent that Porter (1998) was hinting at forms of collaborative action; again, however, before we specify these forms it is important that we examine his theory of clusters more generally.

Porter (1998) chose to characterise clusters in two ways: first, in terms of what we will label their ‘salient features’, inclusive of what we will denote as their political-economic characteristics; and second, in terms of what ought to be done by business leaders in the face of the increasing importance of clusters. Notice here that in moving through these two types of characterisations, we are moving from being merely descriptive to anchoring recommendations for action into the particular model. It is to the characterisations of clusters that we direct our attention initially.

According to Porter (1998), clusters have four salient features. First, the boundaries of clusters are not determined by geographic or political considerations, rather ‘by the linkages and complementarities across industries and institutions that are most important to competition’. In other words, it is not natural boundaries (‘The Hunter Valley’ for example) or acts of legislative fiat that define clusters, but competitive economic activity. Second, ‘clusters rarely conform to standard industrial classification systems, which fail to capture many important actors and relationships in competition’. An important consequence of this is that the economic activity of a cluster may fail to be accurately recognised by standard instruments of measurement. Third, ‘clusters promote both competition and cooperation’. While individual firms, in close proximity to one another, will compete for both market share and resources (including skilled labour) and thereby be inclined to innovate, the same proximity leads to forms of cooperative behaviour. Nor is this behaviour confined to price-sensitive activity (garnering economies of scale in sourcing inputs, for example, or using common marketing and branding strategies). On the contrary: ‘much
of it [is] vertical, involving companies in related industries and local institutions'. Further, consumers enjoy the benefits of being able to source similar products and associated services in the one geographic location. Fourth, due to repeated transactions between geographically adjacent firms and other organizations, what we will describe as ‘positive externalities’ are generated, including improved coordinative capacity and, in particular, trust. Understood in this sense, a cluster is not merely ‘an alternative way of organizing the value chain’. More robustly, ‘A cluster of independent and informally linked companies and institutions represents a robust organizational form that offers advantages in efficiency, effectiveness, and flexibility’ (Porter, 1998).

Porter (1998) is also careful to qualify these claims of longevity. On the one hand he argues that ‘Once a cluster begins to form, a self-reinforcing cycle promotes its growth, especially when local institutions are supportive and local competition is vigorous’. Further: ‘As the cluster expands, so does its influence with government and with public and private institutions’. On the other hand, he argues that clusters are susceptible to both internal threats (‘Groupthink – Detroit’s attachment to gas-guzzling autos in the 1970s is one example’) and the whims of the market (‘a shift in buyers’ needs, creating a divergence between local needs and needs elsewhere, constitutes another external threat’). In fact, such is the general nature of his description that at times the idea of a ‘cluster’ cedes descriptive power to an account of capitalism more generally.

Nevertheless, Porter (1998) offered four prescriptions for his audience. First, choosing locations is a critical strategic decision that is in no way predetermined. In some instances, clusters ‘are critical’ for a ‘home base’ for each product line; at the same time, ‘a growing number of multinationals are shifting their home bases to more vibrant clusters -- often using acquisitions as a means of establishing themselves as insiders in a new location’. Second, ‘engaging locally’ is vigorously encouraged, not merely for accruing the economic advantages sketched above but also for engendering what we will denote as ‘social capital’ (‘the social glue that binds clusters together also facilitates access to important resources and information’ (e.g. Dollery, Grant and Crase, 2011)). Third, the importance of ‘upgrading the cluster’ including encouraging vertical and horizontal integration within the cluster itself rather than seeking to undertake this type of expansion elsewhere, is recommended. Finally, ‘working collectively’ is recommended – just as it was by Sheales et al. (2006) and Zanni et al. (2004). This moves to the heart of our considerations and, as such, it is important to consider closely what Porter (1998) included in this idea.

Four recommendations can be distilled from this last, general prescription. First, clusters suggest ‘a new agenda of collective action in the private sector’. Whereas ‘[i]nvesting in public goods is normally seen as a function of government’ and ‘collective action in the private sector has focused on seeking government subsidies and special favors that often distort competition’, Porter (1998) suggested that ‘cluster thinking clearly demonstrates how companies benefit from local assets and institutions’ and that ‘executives’ long-term interests would be better served by working to promote a higher plane of competition’ (emphasis added). Porter (1998) saw trade associations as exemplary in this regard: ‘[T]rade associations ... often do little more than lobby government, compile some statistics, and host social functions’. Porter (1998) argued for a far broader role:

Trade associations can provide a forum for the exchange of ideas and a focal point for collective action in overcoming obstacles to productivity and growth. Associations can take the lead in such activities as establishing university-based testing facilities and training or research programs; collecting cluster-related information; offering forums on common managerial
problems; investigating solutions to environmental issues; organizing trade fairs and delegations; and managing purchasing consortia.

Undertaking these activities was perceived as particularly important for ‘many small and mid-size companies’ (Porter, 1998).

Second, ‘Governments – both national and local – have new roles to play’. Initially, these new roles look quite familiar: ‘ensuring the supply of high-quality inputs such as educated citizens and physical infrastructure’ and ‘set[ting] the rules of competition’. However: “[G]overnments should promote cluster formation and upgrading and the buildup of public or quasi-public goods that have a significant impact on many linked businesses’, Beyond this, governments are not to engage in what, in the Australian context, is referred to as ‘picking winners’ (choosing industries with the best chance of success to assist). Rather, it should be on clusters themselves: ‘[T]he aim of cluster policy is to reinforce the development of all clusters’ (Porter, 1998).

Third, Porter (1998) cautioned against what he referred to as ‘simply imitating successful clusters in other locations’. Rather, he emphasised that cluster formation and longevity are best achieved through pursuing what is unique to every particular place (‘[f]inding areas of specialization normally proves more effective than head-on competition with well-established rival locations’).

Finally, in concert with much social science literature produced from the United States, Porter (1998) emphasised the role of leadership in clusters: ‘This task will require fresh thinking on the part of leaders and the willingness to abandon the traditional categories that drive our thinking about who does what in the economy’. Moreover: ‘The lines between public and private investment blur’.

What is to be made of Porter’s (1998) approach to collaboration and collective action? There is a sense that these recommendations are extremely familiar. This may be because as a set of prescriptions they have permeated through various social science and public policy practices since their initial development. In particular, the themes of the essential difference between locales as a driver of economic development, through what might be called a ‘mining’ of each place’s uniqueness (or what Harold Laski (1938) referred to as ‘the genius of place’), alongside a prescribed role for leadership, where business blurs with civic responsibilities, are familiar in the local economic development literature (for a comprehensive overview and critique, see Grant and Dollery 2011). Noticeably also, this blurring of the ambit of the public and private extends not just to individuals but to organisational responsibilities, to the extent that government becomes more business-like in its activities, and business (in particular, ‘trade associations’) become more involved in the activities of governance (e.g. Fisher and Grant, 2012).

However, there is room for some circumspection with respect to Porter’s (1998) recommendations. In particular, the blurring of the roles of public and private organizations and individuals is such that any meaningful qualitative distinction between the two types of activities slides under what becomes an overall prescription. This is particularly the case in the ‘wine cluster’ literature where, arguably, clusters have come to be defined by criteria other than economic ones. In particular, ideas of geography and identity dominate in the Australian ‘wine cluster’ literature (e.g. Henderson et al. 2009; Mitchell et al. 2009; Grant, Dollery and Hearfield 2011) to the extent that much of what these discussions really achieve is a broad sociological account of regions, onto which is tacked a flimsy recommendation of stronger leadership.

These ways of framing clusters are only of secondary importance when we are seeking a means accurately to identify collaborative collective action in the value chain from an economic perspective. For example, we are hardly able to form a ‘checklist’ of collective actions to be undertaken akin to the specific recommendations set down by Sheales et al. (2006) cited above.
Further, there are excellent reasons why the activities of governance and regulation ought to be undertaken by government authorities, rather than the pooled interests of private capital (Friedman 1970). Yes; at a certain level all activity is public activity and all activity is private activity. But this is far from helpful. On the contrary, what is required here is a far more analytically precise framework for identifying different types of collaborative and collective action and it is to this that we now turn.

3. Shared services as collaborative and collective activity

At first glance, drawing upon the public finance literature, more specifically local government political economy, may seem peculiar when seeking an analytical foundation for collaborative and collective behaviour in the Australian wine industry. However, reflecting on the suite of prescriptions within Porter’s (1998) cluster model suggests otherwise. For example, local governments are necessarily defined by location which, as we have noted, is a salient (although not dominant) feature of Porter’s (1998) recommendations. The same point applies to leadership: Councils comprise leaders elected by the local community, in many instances businesspeople who indeed ‘abandon the traditional categories that drive our thinking about who does what in the economy’ to provide ‘a higher plane’ of conceiving of their economies and communities in Porter’s (1998) sense (e.g. Grant, Dollery, Kortt and Blackwell 2012). Most importantly, while Australian local governments are responsible for the provision of a limited range of goods and services compared with their international counterparts, and labour under a relatively narrow range of income sources, they are administrative arms of state governments while at the same time possessing the powers and responsibilities of corporations. They are public organisations that engage in a range of business activities and compete with one another for a range of inputs, not the least of whom are citizens themselves, as well as industries and funding streams from higher tiers of government (e.g. Grant and Fisher 2011). As institutional forms, then, they are at least ideally positioned to take a ‘first among equals’ role in the kinds of activities Porter (1998) envisioned.

As such it is relatively unsurprising that the foundations of their economic activity have been the subject of some conceptual scrutiny and theorising that can be rendered useful when discussing collaborative and collection action. In examining collaborative arrangements between councils, referred to as ‘shared services’ in the Australian context (and ‘inter-local agreements’ in the context of the United States) Dollery, Grant and Kortt (2012) drew on the work of several scholars analytically to distinguish between shared services on the one hand and other types of collaborative and collective arrangements on the other hand. First, in asking the question, ‘What constitutes a shared service?’, they drew on the work of Oakerson (1999). In Governing Local Public Economies, Oakerson (1999, p.7) made a fundamental distinction between local service provision and local service production, demonstrating that different criteria apply to these functions. Provision of local services ‘involves determining whether to provide a particular service, the regulation of local activities, the accretion of adequate revenue to pay for the service’, as well as ‘the quantity and quality of local services to be provided, and how these services should be produced’ (Dollery, Grant and Kortt 2012, p. 55). Alternatively, ‘production involves the actual creation of a product or the rendering of a service rather than its financial provision’ (Dollery, Grant and Kortt 2012, p. 55).

Oakerson’s (1999, p. 7) distinction between service ‘provision’ and service ‘production’ demonstrates that different criteria apply to these conceptually different functions. The provision of services involves determining whether to provide a particular service, the regulation of activities, revenue-raising, the quantity and quality of services provided, and how these services should be produced. Alternatively, production involves the actual creation of a product or the
rendering of a service rather than its financial provision. The conceptual separation of provision from production allows for choice between different vehicles for producing services. Oakerson (1999) identified several generic possibilities for linking provision with production. However, of these only ‘coordinated production’, ‘joint production’ and ‘intergovernmental contracting’ constitute shared services. By contrast, ‘private contracting’ and ‘franchising’ do not meet the definition of shared services since they involve contractual, for-profit arrangements. It is on this basis, alongside using the traditional distinction between horizontal and vertical types of cooperation, that we suggest that types of cooperative behaviour in the Australian wine industry ought to be conceived.

Further, Dollery, Grant and Kortt (2012, p. 55) argued that Oakerson’s (1999, p. 15) account of local public goods sees them as having specific characteristics, in that local public goods and services rely on ‘the availability of specific time-and-place information, such as neighbourhood conditions, to support effective production choices’. Clearly, the distinctiveness of local public goods, in particular the advantages that can be derived from them, strongly echoes that contained within Porter’s (1998) cluster model discussed above. Moreover, something very important happens when the analytical distinction between ‘provision’ and ‘production’ is made, namely ‘If local service provision is separated from local service production, it follows that [firm] size and the production scale of the service in question are not necessarily related’ (Dollery, Grant and Kortt 2012, p. 55). Additionally, ‘[t]he conceptual separation of provision from production allows for choice between different vehicles for producing local goods and local services ’… Oakerson (1999, p.17-18) identified several generic possibilities for linking provision with production. Dollery, Grant and Kortt (2012) followed Oakerson (1999) in being concerned with local government service provision and production. They adapted and applied the typology to ‘firms’ generically, discussed with reference to the wine industry in terms of the occurrence of:

(a) ‘In-house production’, where a firm arranges its own production.
(b) ‘Coordinated production’, where two or more firms coordinate production activities.
(c) ‘Joint production’, where two or more adjacent firms organise a single production unit.
(d) ‘Inter-firm contracting’, where one firm contracts services from a separate firm horizontally or vertically at a local, regional, state or national level) on a cost-recovery basis, and as such is akin to a ‘chain good’ (discussed below).
(e) ‘Private contracting’, where a firm undertakes production for another on a ‘fee for service’, profit-recovery basis.
(f) ‘Franchising’ where one firm purchases from another the right to produce a given good or service on a profit-recovery basis (adapted from Dollery, Grant and Kortt 2012, pp. 57-58).

Examining these six options derived from Dollery, Kortt and Grant (2012), it is clear that type (a) does not entail any collaboration around either service provision (or decisions to provide a particular service) nor the production of any good or service and is only included in the list for the purposes of definition. All other options involve shared services of a particular type. Type (c) represents what Dollery, Grant and Kortt (2012, p. 58) referred to as shared services ‘in their purest form’, an example of which, in the context of a wine cluster, would be two or more grapegrowers sharing a winemaking facility, but on a non-contractual basis. As such, it represents a ‘radical’ form of collaboration diametrically opposed to type (a). Nevertheless, examples of this type of collaborative activity abound in the context of European winemaking, some of which may
not be as politically unpalatable as they initially appear. For example, Garcia-Parpet (2008, p. 244) discussed the collective cellaring of quality regional wines such that, after a period of six years, they gained the status of vin de garde, up from vin du pays in the French AOC classification system. In this instance, what is being produced is a wine of greater quality through a process of collective ageing and regional branding rather than individual firms eroding their business integrity in the name of a commune characterised by collective ownership of (say) a winery.

Type (b) represents what Dollery, Grant and Kortt (2012, p. 58) referred to as a ‘weak’ form of shared service in that production is jointly coordinated rather than being actually undertaken. For example, a wine cluster might decide to pursue a particular planting or branding strategy, which does not involve the pooling of resources or, indeed, any fee-for-service. It is merely a coordinating activity that would exist alongside inter-firm competition in the sense prescribed by Porter (1998). Taste Orange, a not-for-profit organisation, is a good example of how creating a brand name of a region specialising in wine and food can benefit the broader community. Its aim to create an effective umbrella for the marketing, promotion and development of the region around the city of Orange in Australia, based primarily on wine and food tourism but encompassing the whole business community of Orange and nearby towns for the purpose of economic development. Taste Orange provides this service by working with and supporting community groups and local businesses promoting events throughout the Orange region and, due to efforts of this public service, some local businesses enjoy the extra tourism income for little or no cost. It has an Events Support Group that is a collaboration of members of event committees including Wine Week (Taste Orange 2013).

Examples of type (d), ‘Inter-firm contracting’ on a cost-recovery basis, are common in the Australian wine industry. One such example, GWRDC, is examined in the next section.

The typology performs two other important tasks for us in this context. The first point is that types (e) and (f) distinctly do not qualify as shared services as they are undertaken on a for-profit basis. Dollery, Grant and Akimov (2008) were strident on this point, stating: ‘This means that they possess additional economic and political attributes derived from their for-profit nature [as opposed to] shared services aimed at reaping the advantages of scale and scope… [P]rivate contractors seek to maximise profits from contractual relationships’. This allows the differentiation of shared service arrangements as the basis for both collaborative and collective action to be distinguished from for-profit activities in any wine cluster, avoiding the problem of what we have described as the erroneous labelling of commercial activity as collaborative and collective activity in some iterations of the cluster approach identified above.

The second point is that it also hives off other institutional arrangements described as collective or collaborative forms of action by the institutional model. According to the institutional approach, governmental departments and all statutory corporations were conceived falling under a general, hazy definition of collaborative activity. On the other hand, the approach suggested in our adaptation of shared services stipulates that, if they do not involve non-profit fees for service, they are institutions of governance and regulation rather than collaboration. Moreover, by implication, the extent to which particular organisations are funded by industry or, alternatively, government, denotes the extent to which they are forms of collaboration or otherwise. We now turn to discuss an example of type (d) from our typology, namely GWRDC, in greater economic detail.

4. Case study of the Grape and Wine Research and Development Corporation (GWRDC)

Umberger et al. (2012) argued that value chain participants maximise their private net benefits, leading to suboptimal performance of the whole chain because of underinvestment in
what we term chain goods. Chain goods resemble club goods in that they are non-rivalrous and selectively excludable. Underinvestment in them is likely to be especially damaging to the competitiveness of small-scale grapegrowers and winemakers because of their limited ability, compared with large-scale producers, to internalise the externalities created. In a similar vein, McNutt (1999) observed that club goods could be considered as public goods without the condition of non-excludability. That is, members of society outside the value chain are excluded from sharing in any benefits derived from collective action within the chain.

Treating the wine value chain as a ‘club’ should enable a chain-facilitating agency such as GWRDC to use pricing mechanisms that maximise chain surplus by applying a two-part tariff (‘entry fee’ and payment for specific shared R&D services that the Corporation provides to chain members). The advantage of such a tariff is that it enables members of the ‘club’ to convert latent demand for R&D services into effective demand by internalising a chain good. By collectively paying for those services, chain members are able to enjoy the consumption of R&D outputs that otherwise would not have been satisfied.

A pragmatic solution adopted to fund wine R&D has elements of best attainable public finance and chain goods solutions, plus a vehicle to facilitate a Coasian solution. GWRDC is the vehicle for the chain goods solution. It ‘invests in and directs research, development and extension (RD&E) along the whole value chain ‘from vine to glass’ to enhance the profitability, competitiveness and sustainability of the Australian wine sector’.

GWRDC coordinates and directs its investments to address the sector’s RD&E priorities, and facilitates the dissemination, adoption and commercialisation of research results throughout the sector. It invests in R&D from existing providers including AWRI, the National Wine and Grape Industry Centre, the CSIRO, universities and state agencies, on behalf of the Australian wine sector (GWRDC 2012).

Grapegrowers and winemakers fund GWRDC by paying statutory levies, which currently cover both the ‘entry fee’ and any shared services it provides, on the annual winegrape crush. The Australian government provides matching funds, implying that the decision in weighing up social and wine chain benefits from R&D is a 50:50 split in funding. While unlikely to be an accurate portrayal of the distribution of R&D benefits, this solution avoids a lot of complicated calculations and arguments. If it is very inaccurate, the social and chain net benefits from wine R&D are suboptimal. This funding approach also neglects the optimal two-part tariff pricing of club goods (membership fee plus payment for services) because it does not separate the ‘entry fee’ from payment for shared services.

A quasi-Coasian solution to shared services in R&D is provided by the actions of AWRI. About 30 per cent of AWRI’s activities are financed by GWRDC on a competitive basis, with a proportion of income being generated by AWRI’s analytical service and contract services. AWRI is ‘industry driven’, implying a role for the institute throughout the value chain in collaborative wine research by bringing stakeholders together to innovate, consistent with a Coasian solution to R&D. That AWRI places great store in this role is indicated by its statement that ‘Collaboration is an essential part of the research community and forms part of everything we do at the AWRI.’ This collaboration is largely achieved through the Wine Innovation Cluster in which ‘partners have complementary assets and talents and the AWRI will continue to foster linkages with them and other national and international collaborators to the benefit of partners, stakeholders and the whole Australian wine sector’ (AWRI 2012).

5. **Relative merits of internalising chain goods, local public goods and national public goods**
There is not an emphatic case for a best attainable local public finance solution (internalising local public goods), national public finance solution (internalising national public goods) or chain goods solution (internalising chain goods) to wine R&D in Australia: all have their place. The pragmatic 50:50 funding solution to funding R&D at the national and chain levels has its merits, but may well be an inaccurate measure of the distribution of benefits flowing to the public at large and chain members from the internalisation of R&D externalities.

Furthermore, this funding approach may not offer opportunities for local-level R&D that may be beneficial to local groups of small-scale grapegrowers and winemakers. These producers may have different priorities from large commercial producers yet hold little sway in influencing wine R&D decisions. Contrasting sets of R&D priorities are likely to exist in Australia, for example, between cool-climate producers who rely heavily on cellar-door sales associated with wine tourism on one hand and large warm-climate bulk wine producers and exporters on the other hand.

6. Concluding remarks

This paper commenced with the observation that, despite the prevailing recognition that both collaborative and communal arrangements have the potential to increase the viability of the wine industry and associated industries, the dominant approaches to conceiving such activities lack conceptual rigour as the basis of both industry analysis and prescription. We have argued that the adaptation of shared services classifications derived from Oakerson (1999), Dollery, Kortt and Grant (2012) and Umberger et al. (2012) performs the important functions of distinguishing between for-profit business models, as well as institutions of governance, from institutions of collaborative and collective activity defined by typology advanced in this paper. Further, the analytic separation of service provision (i.e. the decision to provide a service) and service production allows us to conceive of collaborative and collective activities more precisely. We have also argued that these forms of activity are broadly commensurate with Porter’s cluster theory, which sees competition and collaboration between firms within a particular cluster as complementary and as elements driving productivity and competitiveness, as well as conforming to broader ideas about the roles of locale (defined through economic interrelationships or the value chain) as well as stronger leadership and a blurring of public and private sector roles, traditionally conceived.

This more precise definition of collaborative and collective activity allows us to pursue two further interrelated research questions. The first can be seen as following from the prescriptions of Sheales et al. (2006) at the commencement of our discussion. These authors recommend identifying different types of shared service collaborative arrangements, both of a horizontal kind (‘contracting, leasing, share farming and cooperative arrangements’) and of a vertical kind (‘maintaining or increasing investment in research and development’ and ‘maintaining an appreciation of global and domestic supply chain dynamics’, for example). Even in our brief excursion here we have seen that examples of other types of collaborative and collective behaviour, or club goods, exist in different wine-producing contexts across the globe. These ought to be the subject of sincere investigation, particularly those that deal with the seemingly perennial conflict between grape growing and winemaking as distinct forms of economic activity (e.g. Grant, Gow and Dollery 2010).

The second question is perhaps more mundane, but equally as important. Namely, to what extent can the relative success of wine clusters in the Australian context be attributed to the formation of specific types of collaborative and collective arrangements grounded in the analytic separation between provision and production in Oakerson’s (1999) sense and otherwise?
Have these been post facto a significant contributor to economic development and, if so, how is this contribution to be measured?

References


