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Outline

• Collective nature of the ABARE strategy recommendations for the Australian wine industry
• Two conceptual approaches to examine collective action in the Australian wine industry:
  • An alternative approach to analysing collective action
  • Conclusions

ABARE strategy recommendations

• Five of the six strategy recommendations made by the Australian Bureau of Agricultural and Resource Economics in 2006 entailed some form of collective action
• Understanding the best way to implement them could be enhanced by:
  1. Institutional analysis
  2. Cluster analysis

Institutional analysis

• The ‘institutional approach’ has focused on providing an account of ‘wine organisations’ in Australia, providing an account of the links between these institutional formations
• It is useful in providing a ‘snapshot’ of organisations involved with the Australian wine industry
• But this usefulness is limited, particularly because such portraits are historically moribund due to the fact that many of the institutions rebrand, change functions or simply cease to exist
**Institutional analysis**

- Further, the ‘snapshot’ assumes that relations between organisations are both ‘naturally’ hierarchical as well as being free from conflict, which is hardly the case either historically or contemporaneously.
- It also fails to provide an account of collaborative (and collective) behaviour in the wine industry.
- It falls well short of explaining why stakeholders would be interested in cooperation and its contribution to the Australian wine industry.

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**Cluster analysis**

- The cluster modelling approach has been widely used in studying wine industries to examine collective action in the wine industry specific to a defined location.
- The cluster approach offers a description of a particular type of economic activity and also posits a model, or prescription, for a type of economic activity.
- Michael Porter’s central concern in putting forward his idea of economic clusters was with the idea of competition.

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**Cluster analysis**

- 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.
- This is despite the fact that these latter concerns dominate some writing purporting to engage in ‘cluster analysis’ of specific areas of the Australian wine industry.

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**Cluster analysis**

- Porter includes in his definition the types of institutions identified and described by the ‘institutional approach’ to collective action.
- But it also involves the activities of firms conceived in a traditional sense, in particular their interrelationships.
- Porter argued that clusters have risen to salience due to a change in the nature of comparative advantage and productivity derived from competition.
- For Porter, productivity is now more determined by inter-firm relationships.
Cluster analysis

- For Porter, clusters have four salient features:
  1. boundaries that are not determined by geographic or political considerations but by the linkages and complementarities across industries and institutions that are most important to competition
  2. clusters that rarely conform to standard industrial classification systems, which fail to capture many important actors and relationships in competition
  3. clusters promote both competition and cooperation
  4. positive externalities that are generated, including improved coordinative capacity and trust

- Understood in this sense, a cluster is not merely ‘an alternative way of organizing the value chain’:
  ‘A cluster of independent and informally linked companies and institutions represents a robust organizational form that offers advantages in efficiency, effectiveness, and flexibility’

- Porter is careful to qualify claims of longevity for clusters

Cluster analysis

- Four recommendations can be distilled from Porter:
  1. Clusters suggest ‘a new agenda of collective action in the private sector’: ‘executives’ long-term interests would be better served by working to promote a higher plane of competition
  2. ‘Governments – both national and local – have new roles to play’
  3. Cluster formation and longevity are best achieved through pursuing what is unique to every particular place
  4. The role of leadership is crucial

A problem with Porter’s approach is the blurring of the roles of public and private organizations and individuals such that any meaningful qualitative distinction between the two types of activities slides under what becomes an overall prescription

- We are hardly able to form a ‘checklist’ of collective actions to be undertaken akin to the specific recommendations set down by ABARE

- Further, there are excellent reasons why certain activities of governance and regulation ought to be undertaken by government authorities, rather than the pooled interests of private capital
A more analytically precise framework is needed to identify different types of collective action. We suggest a three-dimensional approach to improve decision making on the types and attributes of collective action, with a clearer distinction between public and private activity and governance roles.

‘Collective goods’ approach

• Defining the group:
  1. Global public good: a well-understood role for the national government and public finance
  2. Local public good: a ‘public economics’ approach involving local government
  3. Chain good: a form of club good that is the avenue for private action by members of the value chain, often with enabling government legislation

Local public goods

• We draw on the public finance literature, more specifically local government political economy
• Local governments are necessarily defined by location, which is a salient (but not dominant) feature of Porter’s recommendations
• 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 sense
Local public goods

• 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

• But they are administrative arms of state governments while at the same time possessing the powers and responsibilities of corporations

Local public goods

• 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

• As institutional forms, they are ideally positioned to take a ‘first among equals’ role in the kinds of activities that Porter envisioned

• The distinctiveness of local public goods, in particular the advantages that can be derived from them, strongly echoes that contained within Porter’s cluster model

Chain goods

• A chain good is 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 good is non-rival but selectively excludable

• A non-rival good is one where consumption by one person does not exclude consumption by others

• A selectively excludable good is where some members of the public can be excluded from consuming it

Chain goods

• An example in the Australian wine industry is the Grape and Wine Research and Development Corporation

• The Corporation 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 on behalf of the Australian wine sector

• Grapegrowers and winemakers fund it by paying statutory levies on the annual winegrape crush, which currently cover both the ‘entry fee’ and any shared services it provides
Conclusions

• Complementarities can be exploited between the three collective good approaches of producing and providing global public goods, local public goods and chain goods.

• These approaches provide scope for clearer decision making on responsibilities for collaboration and cooperation, and flexibility in providing goods and services best suited to specific circumstances within the wine industry.