



university of  
 groningen



Newcastle  
University

***The influence of a multinational corporation on the local  
economic development***

Sandra Veltkamp – s2240432/b3002710

Dual Award: Advanced IBM & International Marketing

December 2013

Grote Appelstraat 44

9712VD Groningen

+31645968760

sandraveltkamp87@gmail.com

---

**Subject:** *The type of strategy and the governance mechanism a channel captain uses in their global value chain and the effects thereof on the producers and thereafter on the local economic development.*

## Contents

1. Introduction .....	3
2. Literature review.....	8
2.1 The challenges of a channel captain in their global value chain .....	9
2.2 Potential spillover effects for the producers.....	12
2.3 The Effects on the Local Economic Development .....	19
2.4 The Spice Industry .....	24
3. Research Methodology .....	27
3.1 Data gathering.....	27
3.2 Data analysis .....	29
4. Results .....	32
4.1 Description .....	32
4.2 Comparison .....	40
4.3 Categorization .....	40
4.4 Conceptualization .....	41
4.5 Laddering approach .....	52
5. Conclusion .....	54
6. Discussion.....	57
7. Future Research .....	58
8. References .....	59
Appendix I: Interview .....	64
Appendix II: Data analysis strategy .....	67
Appendix III: Data analysis governance mechanism .....	68

## 1. Introduction

In this research the strategy and the governance mechanisms a multinational corporation uses in their global value chain (GVC) and the consequences thereof on the local economic development (LED) will be investigated. The focal point lies on the spices industry, because of the increasing importance in the world market. In this research the channel captain refers to the actor in the GVC where the requirements are being set, where the products will be collected, assembled and sold to the end-user. The focus of this research is to investigate the strategy and the governance structure of a channel captain that impacts the spillover effects in their GVC and that may improve the LED. The main research question (MRQ) therefore is: ***“What are the consequences of the type of strategy and the governance structure of a channel captain in their global value chain which impacts the local economic development?”***

This MRQ has a quantitative nature, however due to the explorative character of this research a qualitative approach will be used. Table 1 shows the focus of this research. The matrix displays the different types of strategies and the various governance mechanisms. Furthermore, the effects of these variables on the LED will be investigated.

Governance mechanisms	Market	Modular value chain	Relational value chain	Captive value chains	Hierarchy
Type of strategy					
Operational Excellence	LED	LED	LED	LED	LED
Product Leadership	LED	LED	LED	LED	LED
Customer Intimacy	LED	LED	LED	LED	LED

Table 1: The Matrix Table of the Consequences on the LED

In the twentieth century vertical integration of buyers and suppliers was a common practice; with most products produced at the place of consumption. Due to an increase in globalization a major period of outsourcing began (Ritzer, 2011; Dilik, 2009). According to Baldwin (2006) this globalisation

process can be seen as a process of so called 'unbundling's'. The unbundling can be seen as the spatial unbundling of factories and consumers. Rapid falling transportation costs caused this first unbundling, namely the end of the necessity of making goods close to the point of consumption. More recently, rapidly falling communication and coordination costs have fostered a second unbundling, the end of the need to perform most manufacturing stages near each other. The second unbundling spatially unpacked the factories and offices themselves. The old paradigm was useful for understanding the impact of the first unbundling. Understanding the second unbundling may require a new paradigm. In the new emerging paradigm globalization is seen as the process of unbundling of production activities into GVC's. Gereffi & Fernandez-Stark (2011) agree with Baldwin (2006) and states that the globalization of industries has been driven by demand and facilitated by improvement in transportation and telecommunications infrastructure. Developing countries offer low labour costs and raw materials, while rich nations with educated talent take care of Research & Development (R&D) and design. The GVC can be understood as the linking entity between MNC's production, sourcing strategies and the regional economic development of countries. Especially, since outsourcing and the resulting organizational fragmentation of the value chain often goes in line with a geographical dispersion, triggered by strategies such as "low cost country sourcing" (Bhandarkar & Alvarez-Rivero, 2007).

Components of a product are currently manufactured in various countries and the amount of suppliers to produce one product has increased greatly. The components will be collected, assembled and will receive a final treatment process in the last stage (Krause, Schannell & Calantone, 2000). The Multinational Corporations (MNC's) involved in this process managed outsourcing of their non-core activities which reduced costs due to the cheap labour in the developing countries. This results in arising of economies of scale and scope. Since companies throughout the GVC focuses on a single product type a reduction in the average cost occur. Economies of scope makes product diversification efficient if they are based on the common and repeated use of the production

process. Economies of scope therefore occurs when there are cost savings from producing by-products in the production process (Lechmann, 2011).

The outsourcing companies disputed for a long time that the actions of their suppliers were not their responsibility and that they did not have influence on the suppliers' business and labour conditions. However, in the late 1990s this changed due to the awareness of consumers regarding the problems of the suppliers. For example, Nike has witnessed the effects of the control function in their supply chain in the late 90's. For a long time, the Nike's brand was associated with heroic images of Jordan, Agassi and Tiger. Many consumers perceived Nike as a brand for champions. When consumers were informed that Nike employed people in third world countries who were stitching together shoes for 80 cents a day in a hot, noisy factory, led to protests, product boycotts and a giant stock price drop to \$31 in September 1998 from \$76 seven months earlier (Chen, 2001). Therefore the main issue for Nike was the realization of the internal and external business responsibilities and the proactive management of upgrading their GVC to improve the LED. The fear of reputation damage is an important aspect for CC's to increase their influence in suppliers' operations. The current challenges of a MNC on a spatially divided supply chain lies in the different manner of the operational management. Their focus changed from producing products to guaranteeing the products are produced according their requirements. Therefore a MNC has a control function which makes them the Channel Captain (CC) of the GVC. This control function enables the CC to set requirements regarding the product, product components, production process and production process environment whereby all the actors in the supply chain need to comply with. These requirements may be established by the law, the end-user, the requirements of the CC and/or the use of standards which enables certificates for producing for example sustainable.

A CC can have an impact on the LED by facilitating the spillover effects. These spillovers are the knowledge, higher level of technology or the requirements of the CC which results in higher productivity or efficiency at the production process (Görg & Strobl, 2004). There has been several quantitative researches regarding the measurement of the spillover effect. The results concerning

spillovers in less developed countries have been generally inconsistent. Kokko (1994) and Chuang and Lin (1999), for example, found that FDI had a positive effect on the labour productivity of domestic firms in the Mexican and Taiwanese manufacturing industries. Similarly, Blomström and Sjöholm (1999) and Takii (2005) discovered a positive effect of FDI in Indonesia. However, Haddad and Harrison (1993) and Kinoshita (2001) did not find a significant spillover effect from FDI in Morocco and the Czech Republic. Aitken and Harrison (1999) found that FDI actually lowered local productivity in Venezuela, arguing that the negative effect of FDI may be due to the strong competition exerted by foreign companies on their domestic competition.

This research has a qualitative character since it has an explorative character. There has been research of the Royal Tropical Institute (Boomsma & Mangnus, 2011) regarding the effects of a MNC's and the consequences on the economic development. Boomsma & Mangnus (2011) explain the effects on the LED by investigating different types of a GVC. These different types of GVC's are in line with the different types of strategies. The type of strategy explains the willingness to invest in the GVC and this may result in spillover effects which can positively impact the LED. The combination of the type and strategy and the governance mechanisms has not been investigated before. In this research the governance mechanism is also important since it describes the operational management of the CC in their GVC. This control function thus explains the willingness of a MNC to invest in their GVC to guarantee their requirements are being met. This research therefore focuses on the both sides of the value chain, firstly the CC who facilitates knowledge and sets requirements. Secondly, the producers that need to facilitate the knowledge and requirements to produce efficiently and therefore supplying qualitative products at low prices. Therefore this research focuses on the effects of one end to the other end of the supply chain.

To create a better overview of the process mentioned above, it is required to begin the literature review with an understanding regarding the theory of the GVC and its current challenges. Chapter two starts with a theoretical picture of the spillover effects. This is important since the impact of the

CC's on the supplying firms will become more explicit. Furthermore, the effects and the implications of the LED will be discussed in the literature review. At the end of the literature review the implications for the spices industry will be explained in more detail. In the third section the research methodology will be clarified. This section will be followed with the results of the data. In the fifth section the conclusion of the research will be presented and the discussion will be argued in chapter six. This report ends with recommendations to further research what the effect of certain strategy's and governance mechanisms' at one side of the GVC effects the other side of the GVC.

## 2. Literature review

As explained with the Nike case, governance in a GVC is a difficult process since it includes different actors and diverse regulations in geographically differed places. The actors are the producers, assemblers and processors who all contribute to the value of a product in the supply chain. Since a supply chain is global there are different regulations it needs to comply with. The regulations in a developing country differs greatly from a developed country. Global governance is a many-sided process for organizing a region with several political, social and financial centers to which governments, international institutions, civil society groups, and business firms contribute knowledge and resources (Scherer & Palazzo, 2011). Unlike national governance with its monopoly on the use of force and the capacity to enforce regulations upon private actors within the national territory, global governance rests on voluntary contributions and weak or even absent enforcement mechanisms (Scherer & Palazzo, 2011). Also, increased reputation risk and NGO pressure have an impact on both performance and shareholder value, and also affect the future license to operate, liabilities and strategic options.

The literature review will be used as a guide to explain the different obstacles a MNC face in their current supply chain. These obstacles result from an increasing responsibility in the GVC. Currently, a CC is not only responsible for producing the products, but guaranteeing that these products are produced at a responsible manner is also important for the consumers. Paragraph 2.1 explains the challenges a CC face in their GVC, especially the new role of a CC to establish a sustainable governance mode is essential. Secondly, the spillover effects for the producers will be discussed in paragraph 2.2. The sustainable approach results in upgrading the producers' performance and capabilities, which causes spillovers to the foreign producers. The spillovers effects contribute to the LED since it directly benefits the poor by increasing their productivity and therefore may reduce the income gap. Consequently, the effects on the LED indicate the role and responsibilities of the CC in their supply chain and this will be discussed in paragraph 2.3. Lastly, the spices industry will be explained into more detail. The spices industry is a different industry compared to other food



products as coffee or tea, since there are huge various types of spices which all have their own characteristic. The spices can be divided by the taste; sweet, bitter, hot; or the way they are grown; tree or ground; or if they are annual or perennial. All these different types of spices demand a different approach to the production process. This is important for a CC in the spices industry since different types of spices have dissimilar concerns which results in diverse requirements. To establish the effects of each spice is impossible to indicate hence the focus will be on the spices industry. Therefore more consideration needs to be given to the spices industry and its potential spillovers and the effects thereof on the LED.

### **2.1 The challenges of a channel captain in their global value chain**

According to Krause et. al. (2000) the ability to coordinate internal activities with external supplier networks is one of the most critical strategic weapons for many today's successful MNC's. Suppliers directly impact, either positively or negatively, many competitive aspects of a MNC including cost, quality, technology, delivery, flexibility, and profits (Gupta & Zhender, 1994; Blaxill & Hout, 1991). If capable suppliers are selected, a MNC can use its GVC for competitive advantage by supplying the products at a lower cost or a lower time to market. However, many MNC's state a serious need for upgrading suppliers in the parts of quality, cost, delivery, innovation, and product design (Morgan, 1993). Furthermore, MNC's indicate that suppliers' future capabilities may not meet the future needs and expectations of buying firms without some type of CC's involvement (Monczka, Callahan & Trent, 1995).

Monczka et al. (1995) indicated that a gap between demand and supply will increase when producers are not be able to meet the requirements introduced by the CC's. Therefore the continuing challenge of a CC in their GVC is the ability to coordinate internal activities with external supplier networks. This is especially important since Western MNC's are increasingly under pressure to apply sustainability standards in their supply chains, as was the case with Nike. Different standards regarding labour conditions or environmental regulations between developed and developing countries are likely to lead to clashes in Western MNC's expectations and supplier's capabilities to

conform such expectations. Especially since in a developing country, suppliers face at times contradictory pressures. On the one hand, the CC wants to be able to confirm that their suppliers comply with their Corporate Sustainable Responsibility (CSR) code of conduct. On the other side, they require low prices and tight delivery schedules. While some suppliers in developing countries will be able to meet these challenges, others may face difficulties (Bhandarkar & Alvarez-Rivero, 2007). CC can therefore not just “pass” through their standards and requirements in the supply chain but need to find effective ways to train such code of conducts and monitor for compliance at their supplier’s base (Ockborn, 2007).

For market transactions between the supplier and the purchaser occurs, both parties must find specialization advantageous sufficiently which outweighs any cost of trading. Therefore, vertical specialization must be a part of a function of heterogeneity in productive capabilities along the value chain. When MNC’s look at vertical integration one has to look at the relevant deliberation – the comparison of the potential gains from trade, due to heterogeneous productive capabilities, as measured against the level of transaction costs (TC). So, when TC is relatively low, yet the benefits from trade are even smaller then there will be no reason for vertical specialization to emerge. Key here is the understanding that TC decreases the lubricate working of the market. Also, heterogeneous capabilities in combination with TC reduction allows firms to focus on its areas of strength (Jacobides & Winter, 2005). According to Gereffi & Mayer (2010) there are different types of TC’s, such as trade barriers (e.g. tariffs and quotas) and other transaction costs such as communication and transport costs. The contractual agreements and cultural proximity may reduce the TC’s. However, the greater the cultural distance, the more vertical integrated and therefore hierarchical the governance structure may be. There is a difference between event-time and clock-time societies and the difference on the perception of time itself has be investigated by Levine (1997). Clock-time driven societies are usually western societies where the numbers on the clock signal or dictate when to start or when to finish certain activities. In event-time driven societies, however the focus is more on the progression of the events themselves in order to determine when

they begin or end. According to Sturgeon (2008) the key variable in TC economics is asset specificity, these are relationship-specific investments that tend to lock business partners into their relationships, creating opportunities for either party to take advantage of the other. The economic activity is embedded in social relationships, not the other way round, and that trust and even goodwill can and often does build up inter-personal relations that inevitably underlie inter-firms relations. These relationships may reduce the TC, since there will be less emphasis on the contractual agreements but merely on trust and mutual dependence.

Governance in the GVC explains how the supply chain should be controlled and coordinated when certain actors in the chain have more power than others. Gereffi (1994, p. 97) defines governance as “authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain”. There are five governance structures of a GVC which can be used by a CC to guarantee that the TC’s are low and their requirements are being met (Gereffi et al., 2011). (1) Markets; the essential part is that the switching costs to new partners are low for both parties. The TC’s are in this case high since there is not a relationship between the actors that can create trust. (2) Modular value chains; the suppliers in these supply chains make products to a MNC’s specifications, which may be more or less detailed. The TC’s are in this case medium since a relationship exists between the supplier and purchaser and there is to some extent asset specificity. (3) Relational value chains; these networks are characterized by complex interactions between buyers and sellers, which often creates mutual reliance and a high degree of asset specificity. Complex interactions results in high communication costs, but there is mutual dependence and trust which results in low TC’s. (4) Captive value chains; in these chains are small suppliers transactionally dependent on much larger buyers. Suppliers face significant switching costs and are, therefore, ‘captive’. Such networks are frequently characterized by a high degree of monitoring and controlled by MNC’s. Therefore the TC’s are medium since there is a necessity to establish contracts and trust may not be present at the partners; (5) Hierarchy; this type of governance is characterized by vertical

integration, there is to a great extent managerial control flowing from a MNC to all segments of the supply chain. Therefore there is to a great extent asset specificity which creates relationships and mutual trust and this results in low TC's. The hierarchical type of governance mechanism can also be described as a producer-driven chain as it influences the technological or scale advantages of integrated suppliers (Gereffi et al., 2011). The first until the fourth governance structures are an example of a buyer-driven chain since these chains emphasize the influential position of MNC's in dictating the way the chains are operated by obliging suppliers to meet certain standards and protocols (Gereffi et al., 2011). A question may arise whether which type of governance may result in a higher degree of spillover effects. The actors in the producer-driven chain may be more willing to invest in each other since there is low TC's and a relationship will be established that facilitates trust and mutual dependence. However, a buyer-driven chain is more likely to endeavour since a MNC is more likely to shift in case a supplier cannot meet the needs they obligated.

***Proposition 1:*** *The governance structure of the global value chain has an impact on the extent of spillover effects.*

## **2.2 Potential spillover effects for the producers**

As mentioned, the MNC's have more responsibilities throughout their GVC and need to positively impact the suppliers' business and labour conditions. The increasing importance of MNC's and associated foreign direct investment (FDI) for international production has prompted considerable interest in the effects of MNC's on host countries. Specifically, it has been recognized that FDI not only leads to an inflow of capital into a country, but that CC's located in the host country can benefit indigenous firms through spillovers (Görg & Strobl, 2004). These spillovers are a result of a higher level of technology or knowledge from a CC which can impact indigenous firms through affecting their productivity (Görg & Strobl, 2004). Generally these productivity spillovers are said to take place when the entry or presence of MNC affiliates lead to productivity or efficiency benefits in the host country's local firms, and the MNCs' are not able to internalize the full value of these benefits (Blomström & Kokko, 1998). In this research the spillover effects are specified as 'the impact a MNC

has on the productivity and efficiency of the suppliers in their GVC'. An example of a spillover is the case where a local firm improves its productivity by copying some technology used by MNC affiliates operating in the local market. Another kind of productivity spillover occurs if the entry of an affiliate leads to more severe competition in the host economy, so that local firms are forced to use existing technology and resources more efficiently. Furthermore, a spillover effect takes place if the competition forces local firms to search for new, more efficient technologies. These effects may take place either in the foreign affiliate's own industry or in other industries, among the affiliate's suppliers or customers (Blomström & Kokko, 1998).

All the benefits on domestic firms' productivity represent the so-called "horizontal spillovers", which takes place mainly at an intra-industry level. But the phenomenon of spillovers is not just confined to industries; MNC's can produce positive effects on local economies also at an inter-industry level, through the so-called "vertical spillovers". The vertical spillovers occur when the diffusion of productivity benefits in a host country reaches both the upstream and downstream sectors through customer-supplier relationship between foreign firms and domestic firms. As a consequence, we can distinguish between "backward" vertical spillovers (i.e. when domestic firms supply their products to MNC's) and "forward" vertical spillovers (i.e. when domestic firms buy their inputs from MNC's (Sica & Reganati, 2007).

There are however other aspects that also determine the degree of spillover effects. According to Giroud, Jindra and Marek (2012) the CC's characteristics have a positive impact on spillovers. Additionally, Jordaan (2011) confirms that positive spillovers are facilitated through supplier firms' absorptive capacities and the level of support from the MNC. In the next section the CC's characteristics and the absorptive capacities will be discussed as well as the main transmission channels through which FDI spillovers can be generated.

### *2.2.1 Characteristics of the Channel captains*

According to Winkler (2013) a CC has seven main characteristics that all have an effect on the local firm and their potential to absorb FDI spillovers. These characteristics will be discussed in this section. (1) The extent of foreign ownership due to the fact that a higher share of foreign ownership, and, therefore larger control over management and lower potential for knowledge leakages, correlates positively with the MNCs' incentive to transfer knowledge (Dimelis & Louri, 2002; Takii, 2005). On the other hand, a larger domestic ownership share could also be favourable for local firms, since the CC's interests are less protected making technology leakages more likely. A larger domestic input might further raise the probability to rely on local suppliers (Crespo & Fontoura, 2007). (2) Empirical studies controlling for different structures of foreign ownership tend to support the more positive spillover effects of joint ventures. In the study of Abraham, Konings & Slootmaekers (2010) it was found that positive horizontal spillovers were a direct result in case foreign ownership of Chinese manufacturing firms are organized as a joint venture. Abraham et al, (2010) also concludes that the presence of fully-owned foreign firms is found to have a negative impact on local firms, due to technology intensity of MNC's and therefore crowding-out producers within the same sector. (3) The duration of the CC's presence in the host country also impact FDI spillovers. Gorodnichenko, Svejnar & Terrell (2007) found significantly positive forward and horizontal FDI spillovers from older firms while these effects cannot be established for newer firms. Therefore MNC's with a longer presence in a foreign country may impact the LED to a greater extent than MNC with a shorter duration. (4) Another kind of CC's characteristic is the technology intensity of the MNCs' goods produced in the host country. More technology- or R&D- intensive products generally hold a larger element of knowledge and greater set of skills (Buckley, Wang & Clegg, 2007). (5) The home country of FDI impacts managerial practices and cultures which are linked to differences in the use of expatriate employees, attitudes and strategies to the training of local workers and common skills development (Gibbon, 2003, 2008; Staritz and Morris, 2013). Since a CC can establish requirements which are based on the home country norms, values, practices and regulations towards the host country and demands that these are being met. The host country can therefore familiarize these requirements

and facilitate these throughout the industry. (6) The CC's sourcing strategy may also affect the FDI spillover potential. If a MNC sources on a global scale, it may follow a co-sourcing strategy. This strategy combines services from within and outside a business to achieve the same goal. This results in an increased reliance on imported inputs from established suppliers abroad (Javorcik & Spatareanu, 2011). (7) Lastly, there are different motivations for undertaking FDI which are likely to mediate spillover potential, namely: market-seeking, efficiency-seeking and resource-seeking. There is ambiguous evidence regarding market-seeking FDI given that the situation may be context specific. Efficiency-seeking motives have higher spillover potential since it is largely motivated by limited time, effort or cost. Resource-seeking FDI has less potential for spillovers due to its capital and technology intensity and limited time horizons (Winkler, 2013). The seven characteristics of a CC is likely to result in positive spillover effects. Which leads to the following proposition

***Proposition II: The channel captain will use their characteristics to facilitate the spillover effects to the producers.***

### ***2.2.2 Absorptive Capacities***

Winkler (2013) has identified six important factors which make it able for local suppliers to absorb the potential spillovers effects. These aspects will be explained in detail in this subparagraph. (1) The presence of a technological gap between the actors in the GVC has been expressed as the most important factor by Winkler (2013). However the views on this issue conflict. Some studies find that a large technology gap is valuable for local suppliers since there is a potential to absorb knowledge facilitated by the MNC's and therefore their catching-up potential increases (Findlay, 1978; Wang & Blomström, 1992; Smeets, 2008). Other studies argue that local firms might not be able to absorb positive FDI spillovers if the technology gap between the CC and producers is too big or too small (Blalock & Gertler, 2009). This research explains this contradiction by the approach a MNC can use with their type of strategy and its governance mechanism that has different impacts on the LED. (2) There is empirical evidence that the encouraging role of R&D in local firms in both high income countries (Barrios & Strobl, 2002) and developing or emerging countries (Blalock & Gertler, 2009) on

the knowledge acquirement from MNC's on local suppliers' new knowledge creation in terms of new products, services and technologies. (3) According to Blalock & Gertler (2009) skilled labour is another aspect that also is positively related to a suppliers' ability to absorb foreign technology. Blalock & Gertler (2009) found that the percentage of employees with a college degree significantly increased domestic firms' productivity gains from FDI in Indonesian manufacturing. (4) Another characteristic that is positively associated to a local suppliers' capability to absorb FDI spillovers is the firm size. Larger firms are better positioned to compete with MNC's and to duplicate their tools (Crespo & Fontoura, 2007). Additionally, larger firms may find it easier to attract employees since they pay better wages. On the other hand, there are studies that found contradictory results concerning the spillover effects. The study of Sinani & Meyer (2004) found that small and medium-sized firms benefit more strongly from FDI spillovers, especially those firms with a higher proportion of skilled labor. (5) Furthermore, exporting has been identified as a feature to a local suppliers' absorptive capacity since local exporting firms are generally characterized by a high productivity and therefore are more capable in coping against the negative rivalry effects created by MNC's (Crespo & Fontoura, 2007). Furthermore, a local firm that exports will feel lower competitive pressures from a CC since it already faces international competition. Therefore the incentive to progress is less which lowers the extent of positive FDI spillovers. (6) The last characteristic of Winkler (2013) is the location of a local suppliers have been shown to be important for the degree of productivity spillovers from FDI. Barrios, Bertinelli & Strobl (2006) suggest that foreign firms agglomeration in the same sector and region significantly increase productivity and employment of local manufacturing firms in Ireland. More regional development and a local suppliers' geographical proximity to CC's also seem to have a positive effect on the FDI spillovers (Winkler, 2013). Concerning these six characteristics, the absorptive capacity is likely to result in positive spillover effects. Which leads to the following proposition:

***Proposition III: The channel captain uses the absorptive capacity of the producers to increase the spillover potential.***



### 2.2.3 Transmission channels

Spillovers are shaped by mediating factors therefore it is important to understand the transmission channel and its mechanisms (Winkler, 2013). In the FDI literature, several channels for spillovers are identified (Hoekman & Javorcik, 2006; Crespo & Fontoura, 2007). These can be categorized in three main channels. (1) Firstly the changing market forces which can be explained as the competition and demonstration effect. (2) The labour turnover can be identified as the second channel. Since a high ratio of employees that leave a company may cause difficulties in transferring knowledge and therefore this may reduce the spillover effects. (3) Also the value chains may cause demand and assistance effects for the suppliers. The demand effect can be generated through the demand of MNC's for better and/or more diverse inputs. The assistance effect occurs when the CC helps the producers to improve their technological capabilities directly through sharing of production techniques, product design and assisting with technology acquisition. Other spillovers that effect the supplying industry may also be created through personnel training, advance payment, rental of machinery, providing inputs, assistance with quality assurance and organization of product lines (Crespo & Fontoura, 2007). The previous mentioned demand and assistance effects are intentional spillovers, whereby the CC deliberately takes initiatives to upgrade the supply chain. However, unintentional knowledge spillovers can also occur through for instance technology leakages to other supplying firms in the sector. In this case the CC does not have any control of the spillovers. This research investigates the spillover effects which are facilitated via the GVC. Therefore, only the intentional spillover effects will be investigated since the main focus of this research are the initiatives introduced by the CC which impacts the LED. This results in the following proposition.

***Proposition IV:*** *The channel captain uses the transmission channel to intentionally facilitate the spillovers effects.*

As explained, the CC's set requirements to the product and production process that need to be complied with by the producers. These demands may require an investments from the producers viewpoint which can be difficult to establish. In response to the concerns regarding the ability of the

suppliers to meet the needs of the CC's, the CC's increasingly use initiatives that develop the performance of their suppliers (Watts & Hahn, 1993). With the supplier development strategies a CC invests in the supplier which reduces the TC since it has a positive effect on their relationship. These strategies can therefore contribute to the spillover effects. There are three methods to develop the performance of the suppliers which are competitive pressure, supplier assessment and supplier incentives. (1) a supplier development activity with the use of an external market is applied when a CC uses more than one supplier for a purchased item or service, or is willing and capable to switch to an alternate supplier (Dyer & Ouchi, 1993; Giunipero, 1990). (2) Supplier assessment efforts by CC's characterize in-depth evaluations of suppliers' quality, delivery, cost, technical and managerial capabilities (Giunipero, 1990; Hahn, Watts & Kim, 1990). An important part of the assessment process includes providing evaluative feedback to suppliers. Feedback to the suppliers is important since it serves to clarify the CC's expectations and provide the supplier with direction for improvement (Krause et al., 2000); (3) Supplier incentive provides incentives from the CC to their suppliers. For the best suppliers includes these incentives increased volumes of present business and priority consideration for future business for the best suppliers (Monczka et al., 1993; Giunipero, 1990). Given that these strategies all incorporate supply and demand, they can be considered as market-based encouragements. Therefore these incentives are based on supplier performance and intended to tempt suppliers to develop their performance based on a desire for increased business with the CC. Competitive pressure, supplier assessment, and supplier incentives are activities used by a CC to encourage suppliers to improve with little involvement by the buying firm (Krause et al., 2000). To conclude, these supplier development strategies will have a positive effect on the LED since they are introduced to upgrade the whole supply chain. Furthermore, the suppliers will translate it to their collectors and farmers and therefore establish not only a supplier development strategy, but a supply chain development strategy. This thus results in the following propositions:

***Proposition V: The use of the external market is a key enabler to motivate the producers to develop their performance.***

**Proposition VI:** *The use of supplier assessment is a key enabler to motivate the producers to develop their performance.*

**Proposition VII:** *Supplier incentives motivate producers by sending a message that improved performance is rewarded with increased business and preferred status for future business.*

Besides these intentional spillover effects and the supplier development strategies, the relationship between the CC and the supplier also impacts the spillover effects. As explained in paragraph 2.1 relationships based on trust and mutual dependence creates low TC's. The contractual agreements help a MNC to establish clarity regarding the roles of the actors in the supply chain. However, cultural distance may result in high TC's since the actors in the supply chain are unable to understand each other. Which may result in high contractual agreements which may have two effects on the TC's. Firstly, the actors are confident that the requirements being met and this may result in a relationship which lowers the TC's. However, high contractual agreements may also be interpreted that the actors do not trust each other and this results in higher TC's (Gereffi & Mayer, 2010). The cultural distance will be established with the theory of Levine (1997) which have been described in paragraph 2.1. To conclude, cultural distance may result in the fact that the actors in the supply chain do not understand each other. This results in the following proposition:

**Proposition VIII:** *Cultural proximity increases the potential for spillover effects.*

### **2.3 The Effects on the Local Economic Development**

The more intensive globalization caused a changing balance of power between, state, corporations and society. The social responsibilities of corporations are becoming an extended model of governance with MNC's contributing to global regulation and providing public goods (Scherer & Palazzo, 2006). Vertical and horizontal spillovers may impact the producers performance and therefore may contribute to the LED. LED is the ability to maximize its economic potential and especially channelling that development to reach the 'second economy', by directly benefitting the poor and to reduce the income gap (Mitchell, 2009). The United Nations Development Programme

(UNDP) (2008) states that ‘under the right market conditions, the private sector can alleviate poverty and contribute to human development in many ways’. In a market economy an interaction takes place by demand and supply with firms, households and the government. Taking risks, the households earn profits and incomes that fuel economic growth. The economy’s power to generate jobs largely depends on the private sector’s vitality. The private sector, by supplying consumer goods and services, bring more choices and opportunities to the poor. Furthermore, the government should establish foundations, such as infrastructure, where to other sectors can benefit from.

As mentioned in paragraph 2.2.3, the CC’s have a significant role in upgrading the supply chain and therefore positively impact the LED. However, this report also suggest that businesses; with governments, civil society and the poor need each other to build the foundations for new markets.

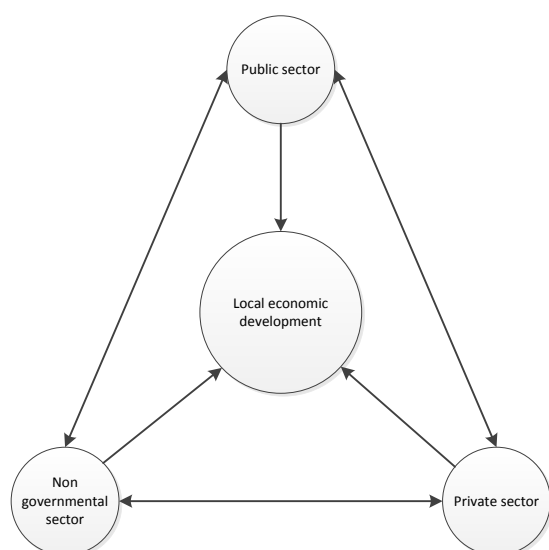


Figure 1: The Actors to establish Local Economic Development (Schuffel, 2013)

The spillover effects may affect diverse levels, such as the local, regional and even the national level (Pennink, 2012). The local capacity impacts the institutions through the quality of local community and the characteristics of the resources for producing a product. Additionally, the local capacity influences the human coordination of entrepreneurial activities, empowerment, local leaders and entrepreneurial activities. These aspects can increase the quality of life of local people and the return on investment for entrepreneur. Since a local capacity which is characterized by human capital results in an efficient production process. On the regional level the quality of the regional situations

impacts the leadership function, institutions and entrepreneurship. Entrepreneurship furthermore positively impacts the competitiveness of the region. With regard to the national level, there are intervening variables that facilitates the competitiveness nationwide. The quality of the national situation impacts the government, universities and the business prospective. These intervening variables impacts the LED through the GDP of a country since these aspects may facilitate entrepreneurship at a national level.

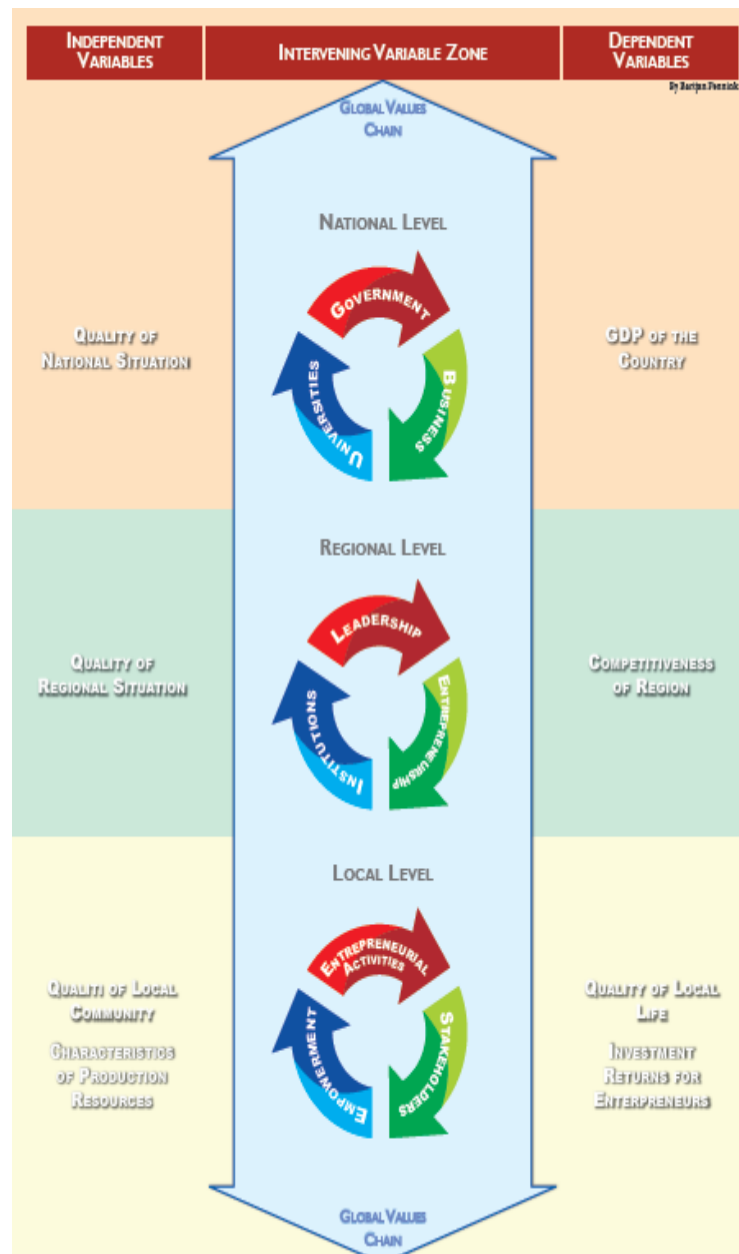


Figure 2: Multi-level, multi-actor model for Local Economic Development (Pennink, 2012)

Figure 3 displays the model of Pennink (2012) in combination with the focus of this research. First, an international level has been added since the CC's operate internationally and this impacts the GVC via international regulations. The characteristics of a CC establishes the foundation as it displays the role in their GVC. Therefore this may impact the LED. Thirdly, as explained in paragraph 2.2.3, the transmission channel in this research is the GVC. Furthermore, the local capacity mentioned in the model of Pennink (2012) matches the absorptive capacities in this research, since it both explains the role the local community can have by adopting the spillover effects. Fifthly, The spillover effects depend on the absorptive capacities, characteristics of a CC and the transmission channel. If these aspects are in line they reinforce each other which will result in the last phase; improving the LED.

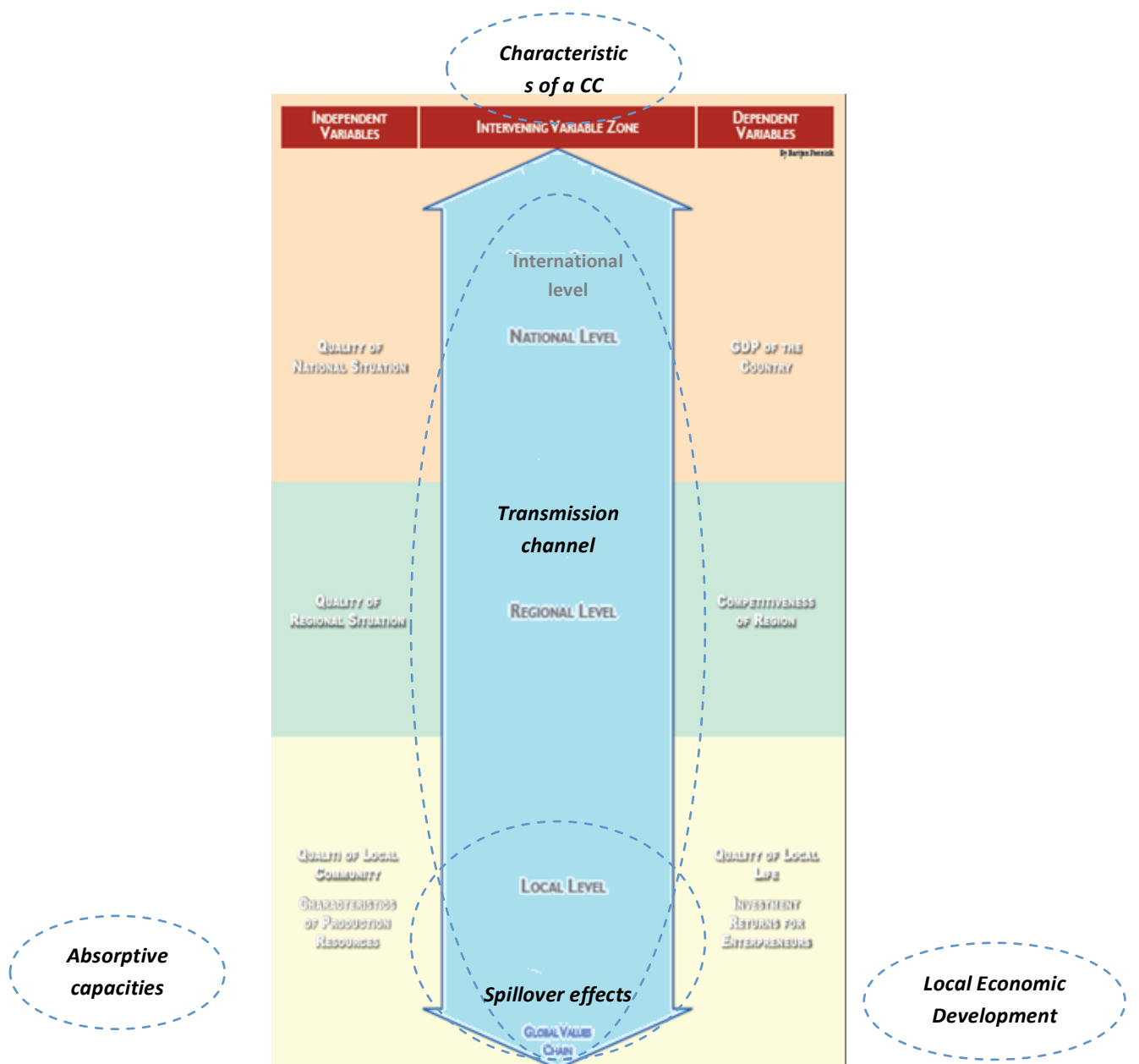


Figure 3: Model to achieve Local Economic Development

Different actors, such as the private, public and non-governmental organisations (NGO's), may impact the national level of a developing country. The focus of this research is however solely on the MNC's and its GVC. The strategy of a MNC indicates their approach to achieve market leadership. This effects the supplier as well since it explains not only how their products are being put in the market, but how the products are being produced. This is not only important for the customers, but it will have an effect on the suppliers as well. The strategy establishes the main focus of the company externally, this influences, however, the internal environment as well. The companies therefore organize their production activities throughout the GVC in a manner that fits their strategy. Companies that have taken leadership positions in their industries have focused on delivering superior customer value in line of the three value disciplines; operational excellence, product leadership and customer intimacy. (Treacy & Wiersema, 1993). (1) Operational excellence explains the principle of providing customers with reliable products or services at competitive prices and delivered with minimal difficulty and/or or inconvenience. Therefore it is arguable that this strategy may have a low impact on the LED since CC's demands low production costs, effective production process and a 'just-in-time' logistic principle. For that reason the CC's may be less willing to invest in the local suppliers. (2) Customer intimacy means segmenting and targeting market precisely and then tailoring offerings to match exactly the demands of those niches (Treacy & Wiersema, 1993). In this case there is an incentive of the CC to invest in the producers since it aims to create long term relationships, not only with their customers, but with their suppliers as well. Consequently this strategy may result in spillover effects that can positively impact the LED. (3) Lastly, product leadership means offering customers leading-edge products and services. These products and services make rivals' goods obsolete, because that consistently enhance the customer's use or application of the product, thereby making rivals' goods obsolete. This strategy may have an average impact on the LED since the CC's create high quality products. Therefore it wants to guarantee that its many high requirements are being met. However, the CC can switch easily in case the supplier is unable to meet their demands. Therefore the is long-term based and the willingness to invest in the

producers is average. To conclude, the type of strategy impacts the keenness the invest in the supply chain. The degree of investment results in positive effects on the productivity and efficiency of the producers and these spillover effects the LED. This results in the following proposition:

***Proposition IX:*** *The type of strategy of a MNC has an impact on the spillover effects in their global value chain which results in LED.*

## **2.4 The Spice Industry**

The focus of this research will be in the spices industry, since it is still characterized as a traditional business. The producers are merely farmers who often produce small scale. While at the other end of the supply chain R&D is quite important to improve the sensory aspects or the packaging of the product. There are several reasons to focus this research on the spices industry; the pressure on the spice market, the sustainable pressure and the ability of the farmers to fulfil the requirements.

(1) To focus this research on the spices industry is because the spice market is increasingly under pressure (Sustainable Spice Initiative). Currently the world's 450 million small scale spice farmers feed 70% of the global population. Since the population is growing, the food will only become scarcer. The small scale farmers are therefore not able to feed a large part of tomorrow's people at their current scale and productivity levels. This is, however, not only the concern of the private sector, but this is important for the society as a whole. The private sector tries to upgrade the supply chain to meet the introduced requirements at a high productivity level. To upgrade the supply chain the businesses invests in relationships, production skills, quality management and support which should be in line with the public investment in awareness creation, infrastructure, health and education. As well as policies regarding access to land, access to services and the role of women. Businesses do not need to take the responsibilities of these development goals. However, they should consider supporting the importance of sustainable business with local governments, sector associations and NGO's to sustain supply in the longer term (Boomsma & Mangnus, 2011).



As explained by Boomsma & Mangnus (2011) the small scale spice farmers face growing competition for raw materials which enhances the shortening of the supply chain and doing direct business with spice farmers. The MNC invest in the farmers since those investments act as incentives for the farmers to supply them. By investing in the empowerment of farmers, such as relationship building, organizational building and business skills companies create good business relationships. Besides the development of the empowerment, paying a fair price creates also a good relationship. However, trust is the basis of a relationship and therefore the most important aspect.

(2) Furthermore, another reason for this is the growing consumer and commercial demand for spices and especially the growing awareness of sustainable spices. A CC can profile itself as sustainable by guaranteeing that its whole GVC is producing according a standard. In case a CC and its supply chain produces according a standard, such as the Sustainable Agriculture Network (SAN), it is certified as sustainable. There is some difference between the standards, however they establish the same sustainable goals. A few aspects of the SAN, which is introduced by the Rainforest Alliance, are (SAN Principles):

- Social and environmental management systems
- Ecosystem conservation
- Wildlife protection
- Water conservation
- Working conditions
- Occupational health
- Community relations
- Integrated Crop Management
- Soil Conservation
- Integrated Waste Management

(3) The European Commission (2012) investigated the nutmeg production in Indonesia to establish whether the farmers are able to fulfil the European law. The main conclusion of this research was that the production process requirements were not fulfilled at the plants of the farmers. This indicated that the farmers did not understand the requirements and were not able to invest in their production facilities to meet the needs.

The figure below displays the GVC of the spices industry. The actors one and two are at a local level within a country. Actor three works on a regional level and actor four is at a national level. After this process the spices will be exported to the processor. The processor in this case is the MNC which assembles the product for the last treatment process and sells it to the end-user. The end-user in this case may be a supermarket who sells the product to the consumer.

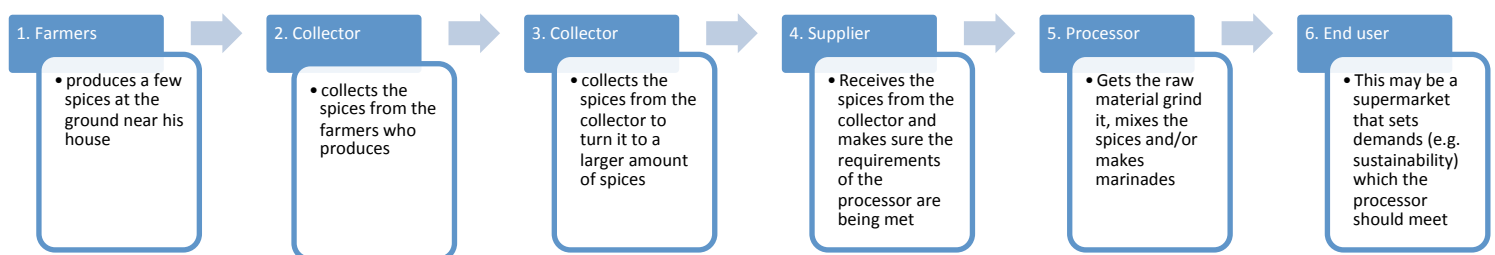


Figure 4: The supply chain of the Spices Industry

During this research the term producers indicates the actors one until four since they all use a production process which establishes the export product to the processor.

### 3. Research Methodology

The main focus of this research is the approach of the CC to cope with the new paradigm of their GVC and the effects thereof on the LED. Therefore an explorative approach is being used to understand the perceptions of the CC in their GVC which results in a qualitative research. The second reason to do a qualitative research is because the information about the influence of CC on the LED is not available via databases. Questionnaires can neither grant the accurate information. The interest of this report lies on the connections between CC's and their influence on LED, with relatively small scale farmers. It is, however, not possible to collect a large enough sample to provide statistical evidence (Meyers, 2009).

This research will use two indicators, type of strategy and control mechanisms, to explain the effects of a CC on the LED. These aspects both explains the CCs' willingness to invest in their GVC. The spillovers are difficult to measure, because they are often tacit, for example the knowledge transfer to the farmers. Therefore it is complicated to establish the direct effects of the type of strategy and the control mechanisms. The first intention was to visit the farmers who produce the spices. However, this was impossible due to the financial and time constraints. Therefore secondary research will be used to explain the effects of a CC on the LED. Brewer and Hunter (1989) explain by using the research material of others the variation of the study increase and this results in the richness of the research. These different views of the influence on LED will increase the validity of the research.

In this chapter firstly the data gathering method for the research will be discussed. Furthermore, the data analysis explains the method being used in analysing the data.

#### 3.1 Data gathering

During this research a semi-structured interview will be used, because it provides an insight in the approach and intentions of a CC in their GVC. The semi-structured interview is the most appropriate method to come to final results, because the literature does not provide all aspects of how MNC's participate in the GVC and how this affects the LED. For this research a questionnaire has been

developed which will be used during the interviews. This questionnaire will provide a guideline to gain the information of the spices industry regarding the CC's, spillovers and the LED. The interviews have different subjects. First, the laddering approach will be used to indicate the values of a CC that inspire the purchase of a product. Laddering is an in-depth interviewing technique used to develop an understanding of how consumers translate the attributes of products into meaningful association with respect to self, following means-end-theory (Gutman, 1982). Therefore the reason why a CC purchases from a country; what the reason of the requirements are; and why this is important to the company, will be merely explained. Second, the article of Winkler (2013) has been used to explain the three potential influences on the spillover effects; characteristics of the CC, absorptive capacities and transmission channels. Third, the supplier development strategies will be asked to indicate which initiatives are introduced by the CC to upgrade the GVC. These market-based encouragements are rewarded based on supplier performance, and intended to tempt suppliers to develop their performance based on a desire from increased business with the CC (Watts & Hahn, 1993). In appendix I the questionnaire can be found.

During the interviews no advantage of the CC's has been taken. Second, CC specific information will not be shared with third parties. Third, due to privacy reasons the CC's involved in this process will not be published by name. Lastly, the supervisors of this research know the CC's which are involved in this process, however this information will not be shared with others.

Data was collected during six in-depth interviews with actors participating in the LED. Five of these were interviews with Dutch CC's in the spices industry. One of these interviews was with a result-oriented coalition of companies, government agencies and social organisations that accelerates and up-scales the spices sector with sustainability (Sustainable Spice Initiative). A seventh source was a supplier who filled in the questionnaire, because the respondent is situated abroad and therefore it was not possible to visit the company. The validity of the results rose when the number of participants increased.

During the interviews the perceptions of the CC's on their effects on the LED will also be asked. However, secondary research will also be used to explain the effects of a CC on the LED. The European Commission made a report regarding their visit at the Ambon Islands to investigate the nutmeg production. The cause for this investigation was the inability of the nutmeg farmers to meet the requirements which were being introduced by the European Union. Furthermore the Royal Tropical Institute did a study regarding the economic behaviour of small scale farmers and livelihoods in the spice sector (Boomsma & Mangnus, 2011). In this report the different types of GVC which are derived from the strategy has been investigated which is in line with this research.

### 3.2 Data analysis

The interviews were in Dutch because the actors who were interviewed have also a Dutch nationality. The interviews have not been translated into English due to the loss of meaning in the translation process. To reduce the potential of the loss of meaning a few considerations have been taken into account. Quotes of participants are being used to establish rich descriptions of the aspects which contribute to the trustworthiness of qualitative research (Van Nes, Abma, Jonsson & Deeg, 2010). Temple (2008) explains that using quotes is not unproblematic since the participants words are literally not their own anymore. In this research the researcher is a neutral and objective transmitter of the message and therefore the researcher facilitated the translation process (Temple & Young, 2004). Additionally, the researcher is bilingual and therefore competent to be responsible for the translation process. Furthermore, the researcher in this case translated the data into codes to stay in the original language as long as possible to avoid potential limitations in the analysis (Van Nes, Abma, Jonsson & Deeg, 2010).

In the data analysis the CC's are divided in different categories regarding their type of strategy and their governance mechanisms an overview from the different perspectives and the effects thereof on the LED will be provided.

First the data will be coded. This is an interpretive technique that establishes organizing the data and provide a means to introduce the interpretations into certain quantitative approach (Van Nes et al., 2010). During this research three techniques will be used to code the data; open coding, thick coding, axial coding. (1) Open coding is the first step by naming the observations in the interviews. Open coding will be used to portray the strategy and the governance mechanisms a CC utilizes (Kendall, 1999). (2) Thick description involves the context within which behavior occurs (Hennink, Hutter & Bailey, 2010). This therefore explains the topics and the context of the interviews. (3) Axial coding process identifies relationships among the open codes (Kendall, 1999). Axial coding will be used in comparing the different categories and the consequences on the LED. Axial coding will be used in paragraph 4.4.

Second, the data will be analyzed with the use of two techniques; telescoping technique and laddering technique. (1) Hennink, Hutter & Bailey (2010) explains the telescoping approach as to conceptualize and to obtain a broad overview of the data. This technique allows to move from a broad overview of the data to a close examination of the detail. Telescoping involves continually switching from 'zooming in' by investigating the different aspects that may facilitate spillover effects to 'zooming out' by keeping in mind the different strategies and governance mechanisms that may impact the LED. With the use of this technique two analytic tasks are conducted simultaneously. Zooming out involves looking at the data as a whole by investigating the role a CC has in their GVC and the effects thereof on the LED. Zooming in allows to return to the detail by explain the different types of strategies and governance mechanisms and their effects on the LED. This involves looking at a single category and explain links, classify nuances or exceptions and further refine the broad conceptualization process (Hennink, Hutter & Bailey, 2010).

(2) The laddering technique gives insight in the underlying motives regarding the requirements which are introduced by the CC. This technique is based on the means-end theory (Gutman, 1982). The goal

is to identify the attributes and to determine the manner in which these are linked with the underlying associations or meanings which are important to the CC (Reynolds & Gutman, 1988).

Attributes (A) are the concrete (tangible) and abstract (intangible) characteristics of a product that the consumers uses to distinguish the product or service. Consequences (C) are more abstract meanings that reflect the perceived benefits (or costs) associated with specific attributes and these determine the consequences of these attributes. The values (V) represent enduring beliefs that people hold regarding what is important in life. They pertain to end states or behaviours that people desire in their lives: they transcend specific situations and they guide selection or evaluation of behaviour (Devlin & Birtwistle, 2003).

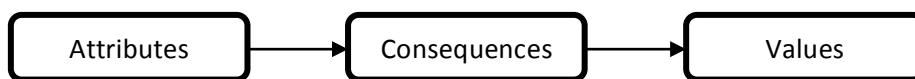


Figure 5: Means-end chain (Reynolds & Gutman, 1988)

To avoid bias the laddering technique will be verified by a fellow student.

## 4. Results

The qualitative data in this research will be analyzed with a variety of core analytic tasks; developing codes, description, comparison, categorization and conceptualization. These tasks are closely interlinked: not only are they carried out in a circular method whereby tasks are repeated during data analysis, but they are also often conducted simultaneously at different points in the analysis (Hennink, Hutter & Bailey, 2010). The qualitative data will be analyzed according the different steps established by Hennink, Hutter & Bailey (2010). Firstly, a description of the subjects in this research will be explained. Comparison is the second task in the analytic process. Comparison allows to further explore issues, identify patterns and begin to notice associations in the data. Furthermore, categorization involves recognizing codes with similar characteristics and grouping these together into meaningful categories, this involves moving from individual codes towards broader categories to enable a more conceptual understanding of the data. The fourth task is conceptualization, this entails considering the relationships between the categories, to view the data as a whole and develop a conceptual understanding of the issues (Hennink, Hutter & Bailey, 2010).

### 4.1 Description

To describe the different aspects in the research open coding, thick coding and axial coding will be used. Open coding will be used to portray the strategy and the governance mechanisms a CC utilizes by creating tentative labels for chunks of data that summarizes the meaning that emerges from the data. This type of coding does not need a thick description. Thick description involves not only a description of a particular behavior but also the context within which that behavior occurs. The topics in the interviews will be explained with the use of a thick description to consider the depth, breadth, context and nuance of each issue and therefore to build up a detailed description about different aspects of each issue (Hennink, Hutter & Bailey, 2010). The axial coding process does need a thick description since it identifies relationships among the open codes (Kendall, 1999). This process will begin at paragraph 4.4.



#### 4.1.1 Open coding

The supply chain is a bundling of different actors with each a different task. The supply chain of the spices industry is rather difficult to display since a CC may have a different supply chain of each spice.

A CC may be specialized in a few spices and purchase the other spices from their competition to offer a range of products to the end-user. Figure six displays the different types of supply chains in the spices industry.

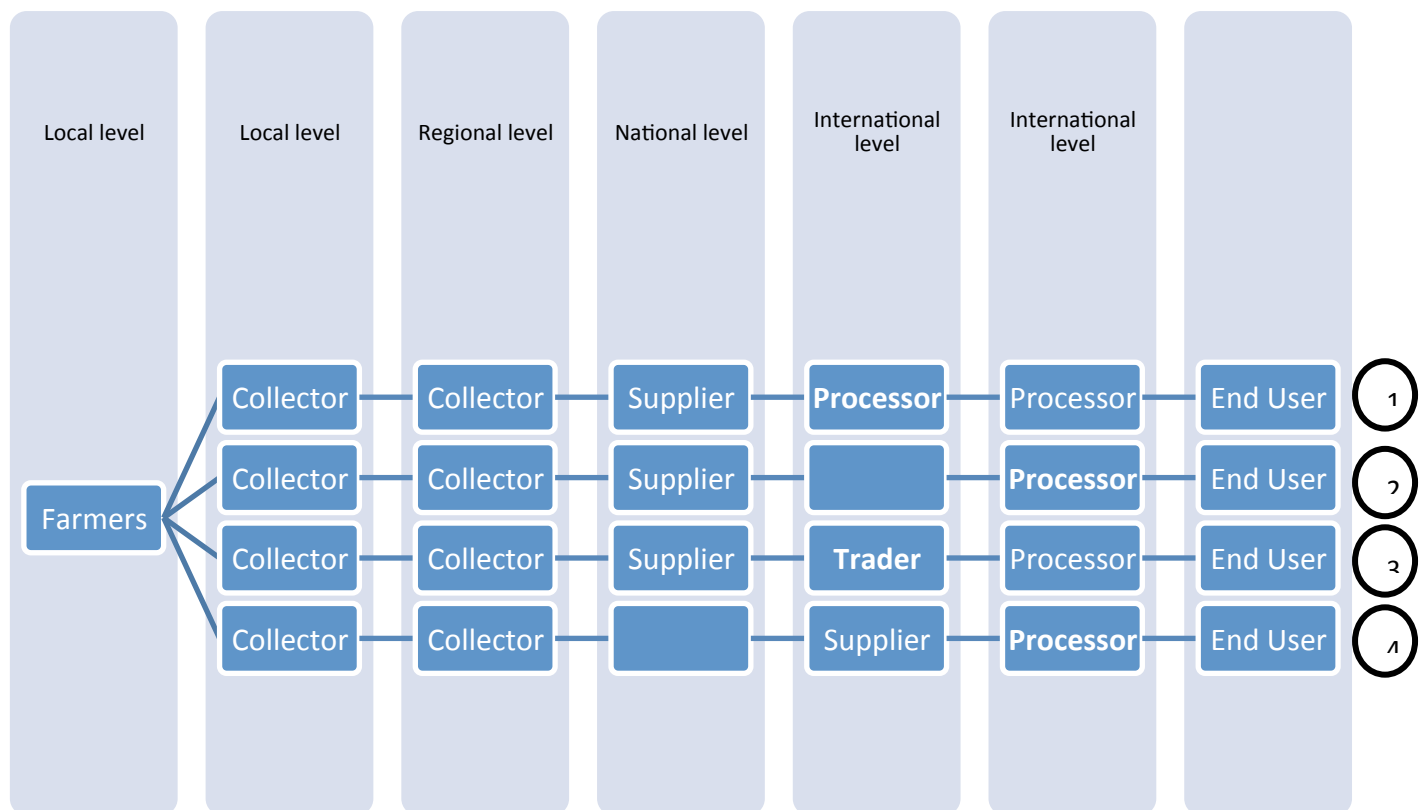


Figure 6: Different Levels of the Spices Supply Chain

In this research seven actors in the spices industry have been interviewed, five actors are processors, which will be seen as the CC within this research. These processors all have different supply chains and it may even be a combination of a different supply chains since it may depend on the spice.

(1) The first processor in the supply chain may also be seen as a trader who firstly treat the spice and sells it to another processor who does another treatment. (2) This supply chain does not own production facilities abroad but purchase the spices from the supplier of a country. (3) In this case the trader does not process the spice but simply purchase it from a supplier and sells it to the

processor, it can also be seen as a middlemen. (4) In this case the processor owns production facilities abroad and therefore the supplier is at the international level. Furthermore, a supplier of one of the processor has been interviewed as well. This supplier will be used as a CC since it also set requirements to the farmers in the GVC. Furthermore, it has established initiatives to upgrade the supply chain and improve the LED. Lastly, a civil society group has been interviewed. This society group has been founded by four leading players in the Dutch spices market, who all include to the participants. This coalition has been extended with private and public partners who all work actively together towards making the production and trade of spices more sustainable. This initiative has not been included in the supply chain, since it best can be seen as an advisory body which creates a market for sustainable products and/or funding of projects to help the farmers in producing spices. In the data analysis the coalition has not been used as a CC since it is not a company who sets requirements where the suppliers needs to comply with, however it has been used as a source for information.

The multi-level, multi-actor model for LED (Pennink, 2012) indicated that that there is one GVC. However, this research suggests that there are multiple variations of a GVC which is shown in figure 7. The strategy of a CC plays a role in their GVC. For example, a CC with an operational excellence strategy is more likely to have production facilities abroad and therefore will have GVC type 4. Figure 7 can be used as a guide during the data analysis process. First the coding method will continue to establish the type of strategy and the governance mechanism a CC uses. Furthermore, the thick coding explains the context of the different aspects in the interviews. This will be used to describe the type of GVC a CC has established. Paragraph 4.2 and 4.3 comparisons regarding the subgroups to identify whether certain issues are discussed differently by each subgroup will be investigated. Paragraph 4.4 investigates the characteristics of a CC, absorptive capacities of the CC's in the spices industry. Furthermore the effects on the LED will be discussed. Paragraph 4.5 combines the different CC and analysis what a CC wants to achieve with their GVC.

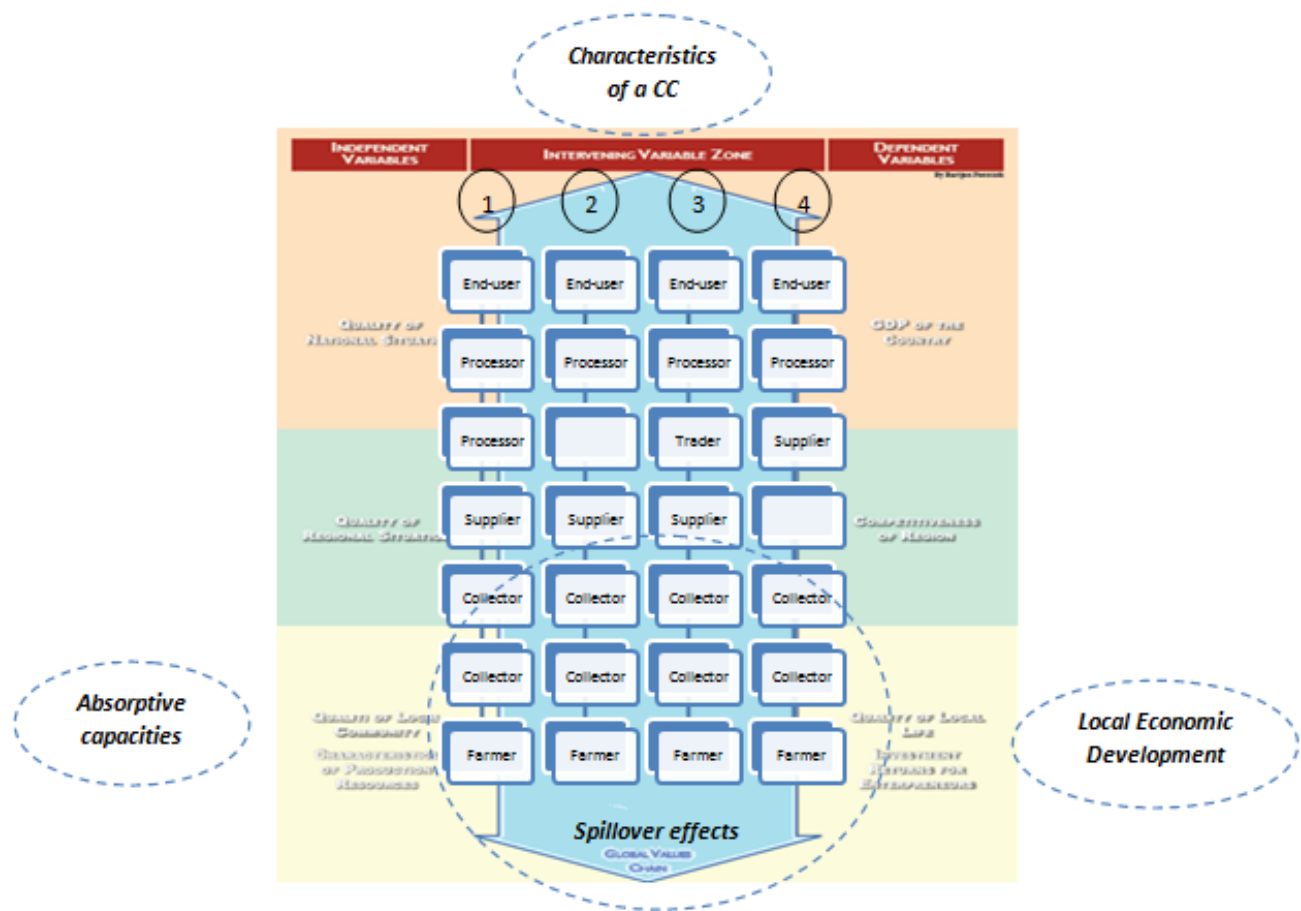


Figure 7: Different Levels of the Spices Supply Chain

Firstly, the CC's who have been interviewed are divided in subgroups according their type of strategy. The company's website has been used to establish their mission and therefore the strategy to approach the external environment of the company. Since words and actions may not correspond with each other, the sphere and the answers during the interviews have been used as additional information to establish a CC's strategy. Furthermore, the aspects which have been discussed during the interviews will be explained by a detailed description to understand how issues may be interlinked and the subtle nuances surrounding these issues.

Company	Mission	Interpretation	Type of strategy
1.	<i>"With continuity and efficiency which are our goals, we want a tailored product range targeted at all audiences to respond to the changing demands in the food market. We want to achieve this by developing products and services that facilitate the preparation and presentation of food and food components optimal (in terms of ease of treatment or processing, smell, color and taste) and enjoyable as possible. The company is continuously focused on controlling and improving product safety and product quality, reducing or preventing environmental impact as much as possible and respond to the market. In addition, we are constantly working on projects in the context of sustainability and projects within the framework of Corporate Social Responsibility. Satisfied customers and high, consistent product quality are paramount "</i>	The company mentions in their mission that relationships are an important aspect of their business, therefore it may achieve a customer intimacy strategy. However it still has a product leadership strategy since the relationship that it would like to achieve is mainly to guarantee a continuous supply.	Product leadership
2.	<i>"With the use of natural ingredients adding exceptional taste and functionality to food. Therefore the taste is the focus of the company. That is why we put so much emphasis on product development, process control and quality assurance. We constantly strive to increase our knowledge regarding taste and make the products applicable to our customers."</i>	Their main objective is to deliver the best quality to the end-users and the consumers.	Product leadership
3.	<i>"The company is Europe's foremost partner of taste, providing food business with a total range of spice-based solutions. Our people are dedicated to develop tasty, healthy, sustainable and safe ingredients, using spices and herbs from all over the world. Doing so, we build on a more than a century of expertise and entrepreneurship, blending tradition with cutting-edge and cost-effective processes".</i>	This holding of this company has a partner in Indonesia which produces their spices. However, their main objective of this plant is to guarantee quality and supply sustainable spices. Therefore this company wants to guarantee that its high requirements are being met.	Product leadership
4.	<i>"The company wants to be the strategic partner of choice at origin for customers in search of sweet spices and other natural ingredients sourced, produced and delivered consistent with international quality and inclusive business standards."</i>	The company sets standards to their products. In case these standards are not being met, the products are being rejected.	Product leadership
5.	<i>"The company's mission is to provide the assurance that our customers can produce their products according their specifications. We do this by sourcing, processing and delivering single spices, herbs and dehydrated vegetables in an economically efficient and quality consistent way."</i>	The company has production facilities in developing countries to produce at low costs and therefore establish low prices.	Operational excellence

6.	<i>"Passion, Partnership and performance are basic ingredients of our business operations. We uphold the credo of 'pure by nature', which is an expression on the way we approach the market. That is not only from a product point of view, but also in open, transparent and approachable relationship with our clients. We strive to help our customer achieving the success by supplying the best possible product and service."</i>	In the interview it was explained that the company competes with the use of low costs due to production facilities abroad.	Operational excellence
----	--	--	------------------------

Table 2: The Type of Strategy of the Channel Captains

The strategy of an organization has an international effect, since the globalization has expanded the supply chain abroad. Therefore to governance structure has received a significant value to successfully prepare, design and manage the international business activities to make sure this is in line with their strategy.

Company	Requirement enforcement	Interpretation	Governance structure
1.	<i>"Who is really the CC in a supply chain? We would like to believe that we are, but often it is our customer who set demands that we should meet. All this time they audited us and now they demand that suppliers are also certified."</i>	The company needs to comply with the requirements which has been set by the end-user.	Modular value chains
2.	<i>"Some requirements are simply already defined and we just demand them of the supplier. He has the type of role in the chain to facilitate these requirements and make sure these are being met. However due to sustainability more partnership arises, this results in more commitment from both sides"</i>	The company needs to meet the needs of the end-user. However the relationship between the different actors within the supply chain is important as well. However, these relationships are being used to determine the actors comply with the requirements.	Modular value chains
3.	<i>"With the use of an audit of the suppliers' factory, audit questionnaire report and samples, we can analyze whether the suppliers meet our needs. In addition, some spices not quite comply with the requirements, therefore we use a treatment in our production facilities to guarantee the products meet the highest standards in food safety. However, because we are not producers of spices, we can only motivate them to be sustainable"</i>	Quality and the requirements to achieve this is the most important factor in producing the spices. The relationships are becoming essential as well, but this is to guarantee the quality.	Modular value chains
4.	<i>"Auditing on site and working with local staff on site."</i>	This company uses the relationship to make sure the suppliers meet the requirements.	Modular value chains
5.	<i>"By managing our demands we make clear what our requirements are. The production facilities can therefore meet our needs."</i>	There is great managerial control flowing from the company to the segments in the supply chain. Furthermore this producer-driven chain uses scale advantages of their integrated suppliers.	Hierarchy
6.	<i>"My view is that the farmers are our backbone, they are the ones who feeds us. We let them see how important they are by given them information of their products and show them what their products mean to us"</i>	The company tries to build relationships by providing information to the actors in the supply chain and therefore creating trust.	Relational value chains

Table 3: The Governance Mechanisms of the Channel Captains

#### 4.1.2 Thick Description

The interviews with the CC has different subjects. First of all, with the use of the ‘laddering approach’ the desired end state of the CC’s with the use of the introduced requirements has been indicated. Furthermore the CCs’ characteristics may have an impact on the spillover effects and therefore on the LED, as well as the absorptive capacities from the local suppliers. Additionally, the transmission channel, supply chain, will be discussed and especially the initiatives of the CC to improve the supply chain. By improving the supply chain the CC develops the LED and indirectly impacts the quality of the product.

What are the different aspects?	What is the context and meaning?	How is each aspect discussed (emotions, expressions, examples)?	How often is each aspect mentioned and by whom?	What other codes intersect?
The requirements introduced by the CC	The values of a CC that inspire purchase of a product	Which requirements a CC demands, why and what it wants to achieve with this	By every CC	Quality, Dutch/ EU regulation and consumer’s demands
CC’s characteristics	The way a CC uses their characteristics to facilitate the spillover effects to the local suppliers	The manner how a CC does business	Frequently mentioned, especially by CC’s with a operational excellence strategy	Extent of foreign ownership, difference in culture and risks spreading
Absorptive capacities	The characteristics of the local suppliers to be able to absorb potential spillover effects	The way a CC copes with the characteristics of a supplier that	Frequently mentioned, especially by CC’s with a customer intimacy strategy.	The gap between the actors in the supply chain and cooperation between the producers
Transmission channels	By means of a value chain a CC can demand better and/or more diverse inputs	How a CC helps the local suppliers to improve their performance	Frequently mentioned.	Standard (Rainforrest Alliance), Sustainable Spices Initiative (SSI), cooperation with suppliers

Table 4: Thick Description

In this research four interviews were with CC which had a supply chain type 2 which are CC1, CC2, CC3 and CC6. However, CC3 also has a production facility abroad which produces a few spices, therefore it also has supply chain type 4. Furthermore, CC5 is a trader but this actor also owns production facilities abroad, therefore it has type 3 and type 4 of the supply chain. CC4 is a processor who owns production facilities abroad and this is a typically case of type 4. Nevertheless, these CC's may also trade certain spices with each other since CC's often specialize in certain spices. There are numerous of types of spices which grow in different countries throughout the world. Since it is often impossible to source from each country, CC's sometimes purchase spices from each other. Therefore some CC's also have a type 1 supply chain.

#### 4.2 Comparison

In this research a comparison approach of subgroups is being used to identify whether certain issues are discussed differently by each subgroup. The subgroups are inductive since it will emerge during the analysis of the data and therefore these are more subtle (Hennink, Hutter & Bailey, 2010).

The figure below displays the CC's and their position in the matrix.

Governance structure	Markets	Modular value chains	Relational value chains	Captive value chains	Hierarchy
Types of strategy					
Operational Excellence Customer Intimacy Product Leadership	5.			4.	
	1.				
	2.				
	3.				
	6.				

Table 5: Comparison Table of the Governance Structure and the Type of Strategy

#### 4.3 Categorization

In the appendix II and III the questions regarding the requirements have been divided between the types of strategy and the governance structure. Since the product leadership strategies all have a modular value chain the resemblance is quite high. These CC's all have similar objectives, since their



main goal is to achieve control in the supply chain. Setting requirements is not enough since the farmers have difficulties to meet them. Therefore this requires investments in the production process but also in the relationships.

There is, however, a tremendous difference in the operational excellence strategy. The hierarchical company 4 focuses on the hard aspects of the agreements in the supply chain, for example; fulfillment to the law or requirements of the end-user by managing the productivity of the producers. The relational value chain of company 5 focuses on the soft aspects of the supply chain. Their center of attention is to develop the farmers and the area by providing information and give value to the farmers to build trust and mutual dependence. This results product quality guarantees to the end-user. The hierarchical value chain is a top-down approach and the relational value chain is rather a bottom-up approach.

#### **4.4 Conceptualization**

In this section the individual components of the data are linked together into a broad conceptual framework that can begin to explain or predict the phenomenon in this research (Hennink, Hutter & Bailey, 2010). With the use of axial coding the relationships among the categories will be investigated.

##### **4.4.1 CC's characteristics**

According to Winkler (2013) there are seven CC characteristics that has an effect on the local firm. The CC's characteristics in the spices industry are quite similar across the strategies and the governance structure. (1) Three CC's indicated that they have production facilities abroad to have more control over the production process for two reasons; establishing qualitative product and reduced costs. The CC who's main objective is to establish qualitative products may invest in the production process which results in the LED. Furthermore, reduced costs results from a developing country which has lower expenses as a developed country such as labor cost. To conclude, the efficiency and productivity objectives are important factors that may result in LED. However, the CC's without production facilities also establish efficiency and productivity necessities since they need to

fulfill requirements regarding the production process but still at a fair price of the products. (2) The CC's specified that their structure of the foreign ownership is merely hierarchical and therefore this may not result in partnerships. Partnerships are favorable to establish LED since the relationship is equal and the partners may learn from each other. (3) The CC's with an operational excellence strategy have been established for less than 10 years and therefore may not have great impacts on the LED. However, the spices supply chain is variable since the farmers may easily change from collector or even from commodity and therefore the duration of CC's presence is not that important on the LED. Furthermore, the CC's merely do not have direct contact with the farmers, the contact merely goes via the suppliers or the collectors. Therefore this may not benefit the LED. (4) The production of spices is not a technological intense process for the farmers. However, some suppliers use machines or even have a laboratory to fulfill the requirements of the CC and therefore they have a mediate technological intensive production process. The CC's with a production facility in the developing country use these facilities to manufacture at a higher technological intense production process than the other CC's. Therefore this may positively impact the LED. (5) The home country may impact the managerial practices due to the requirements, the standards and the law. This can have a positive or even a negative effect on the LED. Firstly, these demands may require an investment which the farmer may not fulfill or even understand.

*"The farmers do not understand and often cannot comply with our requirements, since it requires a different approach to the production process, e.g. they need to wash their hands during work. In addition, the demands ask for investments where the producers do not see the necessity for it." (CC1)*

However, it may also result in a higher degree of productivity or efficiency. (6) All the CC's have in common that they source on a global scale which results in an increased reliance on imported inputs from established suppliers abroad (Javorcik & Spatareanu, 2011). Therefore the CC's are willing to invest in the farmers and suppliers to guarantee their supply in the future, this had a positive effect on the LED. (7) In addition, the CC's have in common that they purchase spices abroad for resource-

seeking motivations. According to Winkler (2013) this incentive has less potential for spillovers due to its capital and technology intensity and limited time horizons.

To conclude, there are a few characteristics of the CC's in the spices industry which may positively impact the LED, mainly the foreign ownership and the home country characteristic. With the use of foreign ownership the CC provides trainings and courses to educate their suppliers and establish the norms, values and standards they need to comply with, which are mostly the western policies. In this case the CC's with an operational excellence approach and one CC with a product leadership but has a foreign production facility are applicable for this CC characteristic.

Furthermore, all the CC's interviewed use their home country characteristics to improve the LED since they all are initiators or member of the SSI. The SSI is a platform where the players in the spices industry can come together and change their thoughts regarding the supply chain and the producers. It also offers a funding where the CC's can set up projects to get closer at the farmers or collectors and give them training. This often goes in association with an Non-Governmental Organization (NGO). Another initiative from the SSI is alter a standard to make it more applicable at the spices industry. Currently, the Rainforest Alliance is being used to make the production process throughout the supply chain sustainable. Therefore the two CC's characteristics that are applicable in the spices industry are being used to facilitate the spillovers effects.

***Proposition II = The channel captain uses their characteristics to facilitate the spillover effects to the producers***

#### 4.4.2 Absorptive capacities

As explained by Winkler (2013) there are six different characteristics that are important for the suppliers to be able to absorb potential spillover effects. (1) There is a technological gap between the CC's and the farmers. The farmers even hardly use technology, they only use the resources which are available, for example the sun for the drying process. The technology used at the supplier differs at each supplier. There are a few CC's with production facilities abroad, these suppliers use a more advanced production process and therefore have a less of a technological gap than the suppliers who sell raw materials to Europe. (2) The R&D is not available at the production facilities of the farmers, however the suppliers use R&D to facilitate new production techniques or create the products of a enhanced quality with a more efficient process. The R&D used at the suppliers plant may be helpful to increase the economic development.

*"The suppliers are working on product development, they even are processing the products at their plants. However, this is also a danger for us, since they are now doing the tasks we did before. For example, we are now buying sterilized milled products, whereas before we bought the product as a whole. The reason we buy from them is that they can produce it cheaper"(CC2)*

(3) Skilled labour is another aspect that might also be positively related to a suppliers' ability to absorb foreign technology. The actors of the supply chain in the developing country do not have an education. The farmers are probably even illiterate, these farmers will face problems in availing of finance. (4) Another characteristic that is positively associated to a local suppliers' capability to absorb spillovers is the firms size. However, this differs greatly at each supplier and on each spice. Some suppliers only trade the spice with the CC, others process the products. The latter often has a larger firm. With regard to the farmers being a member of a network supports information sharing or learning. The availability of cooperation depends greatly on the spices being produced. (5) Exporting has been identified as a feature which creates productivity since firms need to compete internationally. The suppliers export and therefore the productivity demands applies for the spices industry. However, the spices do not grow globally since it is dependent on the resources a country

has. Therefore the spices industry has some boundaries with regard to the competitive pressures it feels. (6) Since regional development and a local suppliers' geographical proximity to CC's seems to have a positive effect on the spillovers. However, with regard to the spices industry there is a tremendous discrepancy in the development of the regions. The geographical distance between the actors in the supply chain may not be positively associated with the spillover effects. In this case the CC's with production facilities abroad also have geographical distance production processes, however they may have psychological proximity due to the close contact it requires.

To conclude there may be absorptive capacities for the producers which has a potential for spillover effects. As explained, the CC's with large production facilities abroad which has R&D available and have quite some international competition are most likely to absorb spillovers. In this case there are three CC's who are eligible for this aspect and two are the companies which have a operational excellence approach and one has a product leadership strategy. Therefore not all the CC uses the absorptive capacity of the producers to increase the spillover potential.

***Proposition III ‡*** *The channel captain uses the absorptive capacity of the producers to increase the spillover potential.*

#### ***4.4.3 Transmission channel***

The supply chain is the transmission channel whereby spillovers may be facilitated. (1) The demand effect can be generated through the demand of CC's for better and/or more diverse inputs. As explained the CC's have different requirements which the producers need to meet. The CC's indicated that these requirements are expressed by the law, the requirements of the end-user and the standards which are being used to produce sustainable. A CC mentioned that their role is to stimulate and have an advisory role with regard to the use of inputs, for example with the use of pesticides and the drying method. (2) The CC's in the spices industry do not have the incentive to transfer their technological capabilities. The CC's with production facilities abroad may transmit their knowledge regarding technology to guarantee the producers are able to fulfill the requirements.

However, other CC's do not see the importance since it may cause leakages to their competition. (3)

The CC's all mentioned they have different incentives to create spillover effects. The CC's finance projects to train the farmers. With the use of such a project a field manager gives training to the farmers to demonstrate several aspects; what the best method is to produce the spices; which pesticides may be used and the quantities that are allowed. All the aspects which are important to produce sustainable, and are therefore mentioned in the standards of for example Rainforest Alliance, will be explained to the farmers. The role of the CC's is not to transfer the knowledge, but to finance the projects which makes knowledge transferring possible.

*"We prefer a single sourcing method since we invest in time and resources to lift our suppliers. In addition to single sourcing, we always know who the alternative suppliers are. We therefore diversify the risks at supplier level but also at origin level in case a natural disaster happen, so we know which product is most suitable for us." (CC1)*

**Proposition IV** = the channel captain uses the transmission channel to intentionally facilitate the spillovers.

According to Watts & Hahn (1993) there are supplier development strategies that results in investments in the suppliers which can contribute to the spillover effects. (4) The use of the external market can be used in case a CC uses more than one supplier for a purchased item or service, or is willing and capable to switch to an alternate supplier. There are several players in the spices industry who can offer the same quality products and the CC's can switch in case these suppliers cannot meet the price terms. There is a resource plan which indicates from each product the requirements, suppliers and the preferred supplier. Based on the risks and the availability of the spices, this plan designates alternative suppliers. Some suppliers are not able to fulfill our quantitative demands and therefore we already make use of dual sourcing or multiple sourcing. Dual sourcing has a positive effect on the purchase technical considerations and therefore increase the bargaining power of the CC's since they are less dependent on the supplier.

*“The farmers make use of natural resources, for example they use creeks and rivers to obtain water. Since the inhabitants use the same water to e.g. clean their clothes, the farmers in the beginning of the stream have clean water, however the further the farmer is in the stream the worse the water gets. The farmers are not conscious of this and are not aware how this may impact their crop. These simple things is where we work on for years now and this does not have to cost a lot of money” (CC6)*

The spices industry therefore tries to use a single sourcing strategy, however the CC should not be too dependent on the suppliers. Therefore two or three suppliers create a balance for the suppliers and the processors. This strategy stimulates the spillover effects since the main intention is the build a relationship with each other.

**Proposition V** = *The use of the external market is a key enabler to motivate the producers to develop their performance.*

(5) A balanced relationship requires feedback to indicate the CC's expectations and provide the supplier with direction for improvement. All the CC's indicated that they give feedback to the suppliers. When they give feedback the quality is the main subject. Technological capacities and managerial capabilities are not that important, the learning ability, however, is crucial. The CC's are aware that the producers have some difficulties to meet the requirements, but there should be commitment and willingness to try to comply with the requirements.

*“We've started years ago a project to assess the quality of cloves we purchase from Madagascar. In the beginning the cargo contained a lot of small stones. Every time we received a freight we evaluated it and give feedback to the supplier. During the years we saw the quality improved massively. But in this case there was also a cooperative which can support and translate it to the farmers. Unfortunately this is not the case with all spices and in each country” (CC2)*

**Proposition VI** = *The use of supplier assessment is a key enabler to motivate the producers to develop their performance.*

(6) The spices industry offers some market-based encouragements such as premiums which should have a positive effect on the farmers since they can invest in their production process. The farmer should perceive that by using a better production process it receives higher yield per acre. However, the CC's are not able to continually provide for premiums since this would reduce their profit margin. In addition, the end-users persistently set requirements for the CC's which should be met, the sustainability is currently a topic in this regard. These requirements demands investments throughout the supply chain which should facilitated by the CC's. The CC's are in a struggle since prices of the products may not be raised. Therefore this incentive is not a long term solution, but it motivates the suppliers on a short term basis.

*"In case our company offers premiums to encourage the farmers to have a higher yield. However, due to our investments it will result in higher prices and this will eventually translate into higher prices for the consumers." (CC5)*

***Proposition VII = Supplier incentives motivate producers by sending a message that improved performance is rewarded with increased business and preferred status for future business.***

With regard to the relationship between the MNC's and the suppliers. The CC's indicate that the supplier in the supply chain captures the cultural distance. The supplier manages the requirements and makes sure the deliveries are send on time. It is therefore difficult to indicate what the effects of cultural distance is since the suppliers have the role as a middlemen. Furthermore, it has been explained that the suppliers in the foreign country often have a Western management to make sure the Western requirements are being met. Furthermore, it has been discussed that Western CC's and end-users prefer to do business with Western suppliers. This is important for a relationship to understand each other which creates trust. It can be argued that high trust results in low TC's. However, during this research it is unclear what the effects on the LED are.



*“To give an example of cultural distance; deliveries may take longer due to holidays and sometime the spices are being sold to someone else for a few cents more. Long collaboration gives confidence to both sides and it results that the parties understand each other. Recently, we have problems with the supply of nutmeg to a Western customer since the freight arrives too late. Anticipation is necessary and solutions for this may be to*

Therefore it is not possible to answer the following proposition:

***Proposition VIII: Cultural proximity increases the potential for spillover effects.***

#### ***4.4.4 The effects on local economic development***

The effects of the CC's on the LED is difficult to establish via a desk research. Therefore several secondary researches will be used to establish the spillover effects on the LED.

As mentioned by Boomsma & Mangus (2011) development is not a core concern for the private sector. Companies increasingly advocate for sustainable business, in practice this is often merely a marketing tool that does not go far beyond checking on labour conditions and improving technical capacity through on-the-job training; obvious social aspects of doing business (Boomsma, Mangnus, 2011). However, all CC's somehow contribute in the livelihoods of the farmers, the extent of the investments depends on the strategy of the CC and of the governance mechanisms in the supply chain. These variables both may impact the spillover effects since it explains the relationship a CC has throughout the supply chain and the controlling and coordinating mechanisms it uses to comply the relationship. Firstly the strategy of the CC's will be discussed. Followed by the governance mechanisms of the CC.

There are three types of strategies, however the companies in this research followed two of these strategies. The operational excellence strategy are CC's who want to establish low costs for their products by means of production facilities abroad. This results in the fact that CC facilitates their knowledge throughout the supply chain to increase the productivity. The product leadership strategy uses their supply chain to deliver qualitative products with the use of standards. These standards establishes ground rules for the farmer regarding e.g. ecosystem conservation, wildlife protection,

water conservation, soil conservation and working conditions. The product leadership strategy uses a bottom up approach to facilitate the upgrading of the supply chain. The operational excellence strategy has a top down approach to

***Proposition IX = The type of strategy of a MNC has an impact on the spillover effects in their global value chain which results in local economic development.***

There are different requirements a CC needs to follow. Firstly, the law which may be national or the supranational law that enforces the product and the production process needs to fulfill various requirements. Furthermore the end-user may establish demands that the CC needs to meet. Additionally the end-user may demand that the whole supply chain of a CC meet these needs. The CC needs to facilitate these wishes. A third requirement a CC needs to meet are the standards introduced for CC to receive a certificate in sustainable producing. Lastly, a CC may establish own demands that the producers need to fulfill. The CC's needs to establish governance mechanisms to guarantee that these requirements are being met throughout the GVC. In this research three types of CC's in the spices industry have been interviewed, which have been displayed by the figure below. The hierarchical organization uses a top-down approach to facilitate the requirements are being met throughout the supply chain. The investment a hierarchical organization does is training of the suppliers. In order to reach a certain degree of quality, farmers need to improve their production practices. The relational value chain has the same requirements but it uses a bottom-up approach to establish a framework of commitment and trust that results in mutual investment in each other. The modular value chain is a combination of the bottom-up and the top-down approach, requirements should be met however the CC is able to invest in the supply chain to create commitment at the farmers level. This is important to create a stable supply chain for now but also for in the future. To conclude, the governance mechanisms has a bottom-up or a top-down approach to guarantee the

requirements are being met. These approaches have an effect on the spillover since the actors invest in the supply chain. However, it is unclear which type of approach has the greatest LED potential.

**Proposition I** = the governance structure of a CC has an impact on the local economic development

Table six indicates the consequences of the type of strategy and the governance mechanisms on the LED.

Governance Mechanisms	Market	Modular value chain	Relational value chain	Captive value chains	Hierarchy
<b>Strategy</b>					
Operational Excellence			There is an incentive to invest in each other, but the main intention is cost reduction by increasing productivity and quality of the products		The producers receive knowledge that increases their productivity and efficiency
Product Leadership		The CC invests in the supply chain but this is to guarantee that the producers meet their quality requirements of the products			
Customer Intimacy					

Table 6: The Consequences of the Strategy and the Governance Mechanisms on the Local Economic Development

The effects on the LED are being generally explained due to the fact that the LED was researched via desk research. Therefore it is unable to specify the effects on the LED into more detail.

#### 4.5 Laddering approach

During the laddering approach there has been no distinction between the different strategies or governance structure of the CC's, since the amount of interviews were too small to divide them. The focal question during this approach was; *"What does the Channel Captain wants to achieve with their supply chain?"*. The answers are allocated to the different aspects (Devlin & Birtwistle, 2003) which are mentioned below:

<b>Laddering</b>	
Concrete attribute	Physical parts/objective; How does the service look like?
Abstract attribute	Non-physical parts/subjective; What does the service do?
Functional consequence	Tangible outcomes of the product use
Psychosocial consequence	Intangible outcomes of the product use
Instrumental value	Preferred status
End-value	Desired end state

Table 7: The Laddering Approach Aspects

<b>Outcomes laddering approach</b>		
Due to the commodities the country is the largest supplier of the spice	Concrete attribute	3
Build a relationship with the suppliers since we always purchased in that country	Abstract attribute	3
Qualitative products	Functional consequence	3
We are able to manage the supply chain	Functional consequence	1
Product stability	Functional consequence	3
Build a relationship	Psychosocial consequence	4
Trust	Psychosocial consequence	3
Value the farmers	Instrumental value	1
Receiving certainty in the supply chain	Instrumental value	4
Meet the needs of the End-User	Instrumental value	6
Meet the needs of the Law	Instrumental value	3
Develop the people and the area	Instrumental value	3
Educate the farmers regarding their product and production process	Instrumental value	2
A stable supply chain	End-value	3
Wellbeing in the supply chain	End-value	1
Prosperity in the supply chain	End-value	2

Table 8: The Outcomes of the Laddering Technique

During the interviews it was explained that an issue in the supply chain is to get more control over the supply chain. There is a lot of uncertainty in the chain since the CC's are dependent on the farmers and their crops. Furthermore the supply chain is variable since the farmers may easily change from collector or even from commodity. There is a growing interest from the farmers to change from the spices industry to for example producing palm oil. Tracts of woods are being burned to make palm oil of it, since it costs less and it is efficient. Therefore the CC's are investing in sustainability projects to create efficiency and productivity with the farmers. This results in financially stable farmers and for the CC's it delivers certainty and stable supply chains for in the future.

*“The CC's increasingly remove the middlemen to get closer at the farmer. This is important to guarantee supply and to have direct contact with the farmer which is important in making agreements. Additionally the processors use this contact to hire traders/suppliers which can give training to the farmers in sustainable producing and certificating.”(CC7)*

## 5. Conclusion

The aim of this research is to investigate the type of strategy and the governance structure a CC uses in their GVC and the effects of these incentives on the producers and thereafter on the LED.

The figure below displays the framework of this research.

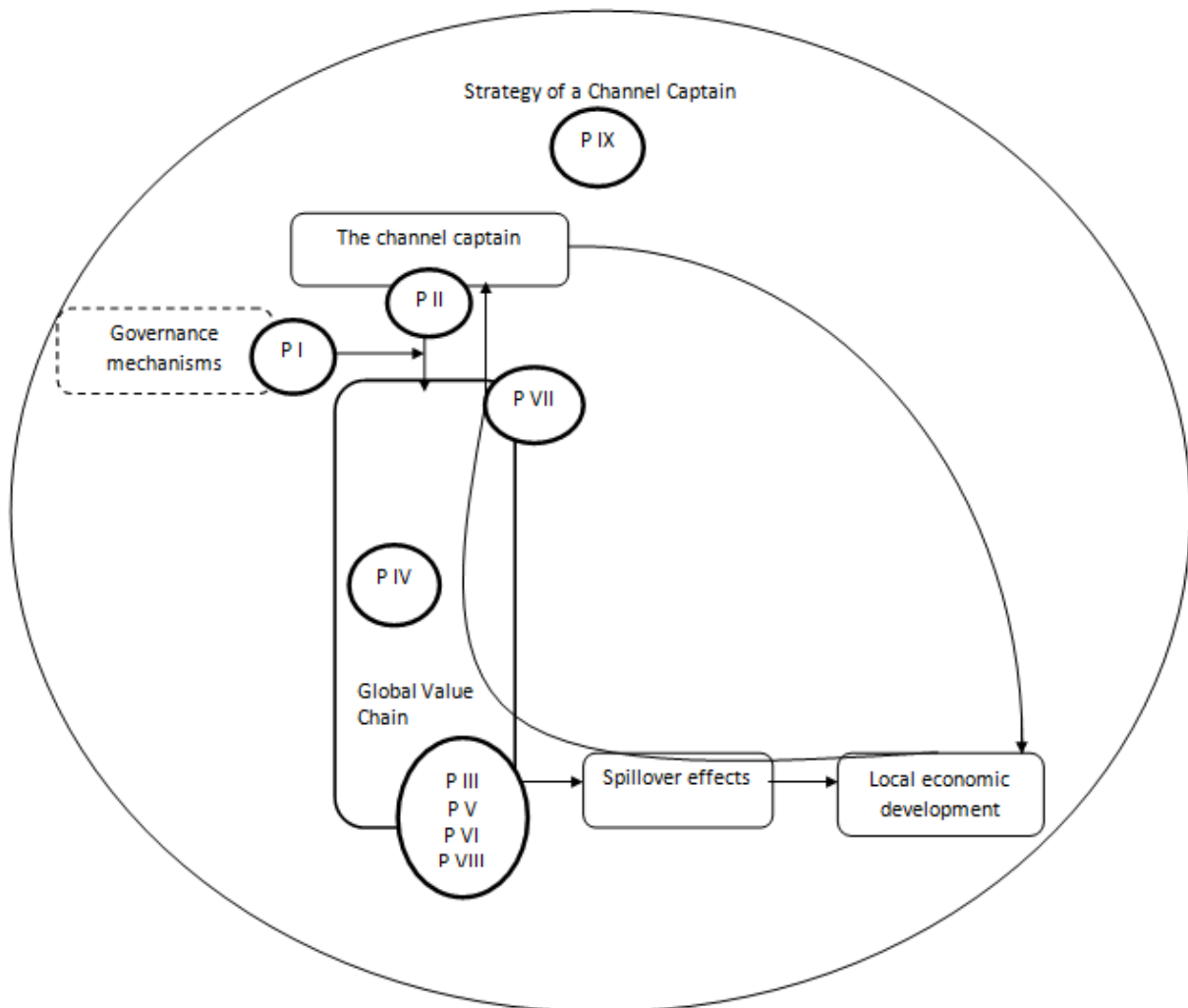


Figure 8: The Conceptual Framework

**(P I)** The governance mechanism has a bottom-up or a top-down approach to guarantee the requirements are being met. These approaches have an effect on the spillover since the actors invest in the supply chain. However, it is unclear which type of approach has the greatest LED potential.

**(P II)** There are different means to use the characteristics of a CC to improve the LED. The CC's with an operational excellence strategy use the foreign ownership to provide trainings and courses to

educate their suppliers and establish the Western policies. Furthermore, the use of a sustainability platform reflects the endeavor of the CC's to improve the LED.

**(P III)** There are different characteristics that are important for the local suppliers to be able to absorb the potential spillover effects. The CC's with large production facilities abroad which has R&D available and have quite some international competition are most likely to absorb spillovers. In this case there are three CC's who are eligible for this aspect and two are the companies which have a operational excellence approach and one has a product leadership strategy. Therefore not all the CC uses the absorptive capacity of the producers to increase the spillover potential.

**(P IV)** The GVC is the transmission channel which is the mediating factor that shapes the spillovers. All the CC's have various projects to increase the LED of the farmers. The reach and the impact of each project may differ per CC.

**(P V)** The use of the external market indicates low investments and therefore does not upgrade the supply chain. The spices industry tries to use a single sourcing strategy, however the CC should not be too dependent on the suppliers. Therefore two or three suppliers create a balance for the suppliers and the processors. This strategy stimulates the spillover effects since the main intention is the build a relationship with each other.

**(P VI)** A balanced relationship requires feedback to indicate the CC's expectations an provide the supplier with direction for improvement. The CC's are aware that the producers have some difficulties to meet the requirements, but they indicate that the suppliers should be committed and willing to comply to the requirements. Furthermore, all CC's use feedback to improve the quality of the products.

**(PV II)** Another supplier development strategy which increase the performance of the suppliers is sending the message that improved performance is rewarded with increased business and preferred status for future business. The spices industry offers some market-based encouragements such as

premiums which should have a positive effect on the farmers since they can invest in their production process. This incentive is a bottom-up approach since it starts with motivating the small scale farmers to upgrade the whole supply chain.

**(P VIII)** The level of trust is important to establish a relationship between the CC's and the producers. Cultural proximity results in that the actors understand each other which can establish trust in the relationship. However, during this research it has been unable to identify the effects on the LED.

**(P IX)** As explained by Boomsma & Mangnus (2011) there are three different supply chains which corresponds with the three types of strategies. All spice CC's somehow invest in the LED. Yet, which CC invests and what he invests, strongly relates on the strategy of the CC. Furthermore, there are different types of investments, a top-down or a bottom up approach. During this research it has been unable to identify which type of approach results in a higher spillover effect and therefore has a higher contribution to the LED.

The MRQ during this research is: ***“What are the consequences of the type of strategy and the governance structure of a channel captain in their global value chain which impacts the local economic development?”***

This research explains the fact that the type of strategy and the governance mechanisms results in a different approach of the supply chain. This different approach results in different spillover effects and therefore can impact the LED differently. However, it may be difficult to establish which type of strategy and governance mechanisms have the most effect on the LED. For example, the hierarchical governance mechanism and operational excellence strategy can be characterized as a producer-driven chain. The actors in the producer-driven chain are more willing to invest in each other since their relationship is long-term. The production leadership strategy, the modular value chain and the relational value chain are merely a buyer-driven chain. In this chain the actors are more likely to endeavor since a CC is more likely to shift in case a supplier cannot meet the needs they obligated.



## 6. Discussion

It is difficult to establish the CC in the supply chain since there are multiple actors who set requirements regarding the product and production process. A result in this research is that the CC's in the supply chain do not set own requirements, but simply facilitate the requirements of others. The requirements that needs to be fulfilled are introduced by the law, the end-user and the standards to produce sustainable. A question may arise who the CC in the supply chain truly is. The law establishes ground rules whereby the CC needs to comply with. However, the research of the European Commission (2012) indicated that these requirements may be difficult for the farmers to fulfill. Additionally, the consumers demand the CC's to take responsibility regarding their production process throughout the GVC. This not only includes paying the farmers a living wage, but merely upgrading the value chain by improving the LED. These soft requirements are being adopted by the end-user. The CC's tries to comply with these needs by implementing the use of standards throughout the GVC. It can therefore be argued that the end-user or the consumer is the genuine CC in the GVC.

Furthermore, a question may arise whether the current activities initiated by the CC's are enough to secure the supply. Boomsma & Mangus (2011) answer this question by explaining that it is enough for the short-term approach. This is due the volatile markets of spices in which side selling risks are high, this means that small farmers often choose a higher price above long term relationships. Furthermore, the supply chain of the spices is long due to the different actors. This results that the processors often do not know who their farmers really are. Therefore it is difficult to establish a long term relationship throughout the GVC. On the other hand, due to the increasing world population there is an expectation that the spices will face increasing shortages. This results in the necessity for the CC's to invest in the livelihood of the farmers. However, the CC's impact the LED to a certain extent. To move the LED to a higher level, cooperation between the private sector, public sector and the NGO's need to establish (Boomsma & Mangus, 2011).

## **7. Future Research**

Spillovers have a tacit character which makes it difficult to capture. Quantitative research may be required to establish the spillover effects of a CC and the results thereof on the LED. Furthermore, five out of the six CC's interviewed are a member of the SSI. Therefore they may be more focused on the LED than other CC's. Future research may do the research on a larger scale with more diverse CC's.

## 8. References

- Abraham, F., Konings, J., & Slootmaekers, V. (2010). FDI spillovers in the Chinese manufacturing sector. *Economics of Transition*, 18(1), 143-182.
- Aitken, B. J., & Harrison, A. E. (1999). Do domestic firms benefit from direct foreign investment? Evidence from Venezuela. *American economic review*, 605-618.
- Baldwin, R. (2006). Globalisation: the great unbundling (s). *Economic Council of Finland*, 20.
- Barrios, S., Bertinelli, L., & Strobl, E. (2006). Climatic change and rural–urban migration: The case of sub-Saharan Africa. *Journal of Urban Economics*, 60(3), 357-371.
- Barrios, S., & Strobl, E. (2002). Foreign direct investment and productivity spillovers: Evidence from the Spanish experience. *Weltwirtschaftliches Archiv*, 138(3), 459-481.
- Bhandarkar, M., & Alvarez-Rivero, T. (2007). From supply chains to value chains: A spotlight on CSR. *asdf*, 387.
- Blalock, G., & Gertler, P. J. (2009). How firm capabilities affect who benefits from foreign technology. *Journal of Development Economics*, 90(2), 192-199.
- Blaxill, M. F., & Hout, T. M. (1991). The fallacy of the overhead quick fix. *Harvard Business Review*, 69(4), 93-101.
- Blomström, M., & Kokko, A. (1998). Multinational corporations and spillovers. *Journal of Economic surveys*, 12(3), 247-277.
- Boomsma, M. & Mangnus, E. (2011). Guaranteeing Sustainable Spice Supply. Investments in the livelihoods of small scale spice farmers, KIT working Paper Series WPS.S1, Amsterdam: KIT
- Buckley, P. J., Clegg, J., & Wang, C. (2007). Is the relationship between inward FDI and spillover effects linear? An empirical examination of the case of China. *Journal of International Business Studies*, 38 (3), 447-459.
- Chen, K. (2001). Nike Gets Traction From Sweatshop Spat. *Wall Street Journal – Eastern Edition*, 237 (41), 23.

- Crespo, N., & Fontoura, M. P. (2007). Determinant factors of FDI spillovers—what do we really know?. *World development*, 35(3), 410-425.
- Dirlik, A. (2000). Globalization as the end and the beginning of history: The contradictory implications of a new paradigm. *Rethinking Marxism*, 12(4), 4-22.
- Dimelis, S., & Louri, H. (2002). Foreign ownership and production efficiency: a quantile regression analysis. *Oxford Economic Papers*, 54(3), 449-469.
- Findlay, R. (1978). Relative backwardness, direct foreign investment, and the transfer of technology: a simple dynamic model. *The Quarterly Journal of Economics*, 92(1), 1-16.
- Dyer, J. H., & Ouchi, W. G. (1993). Japanese- style Partnerships – Giving Companies a Competitive Edge. *Sloan Management Review*.
- Gereffi, G. (1994). The organization of buyer-driven global commodity chains: how US retailers shape overseas production networks. *Contributions in Economics and Economic History*, 95-95.
- Gereffi, G., & Fernandez-Stark, K. (2011). Global value chain analysis: a primer. *Center on Globalization, Governance & Competitiveness, Durham, NC*.
- Gibbon, P. (2003). The African Growth and Opportunity Act and the global commodity chain for clothing. *World Development*, 31(11), 1809-1827.
- Gibbon, P. (2008). Governance, entry barriers, upgrading: A re-interpretation of some GVC concepts from the experience of African clothing exports. *Competition & Change*, 12(1), 29-48.
- Giroud, A., Jindra, B., & Marek, P. (2012). Heterogeneous FDI in Transition Economies—A Novel Approach to Assess the Developmental Impact of Backward Linkages. *World Development*, 40(11), 2206 - 2220.
- Giunipero, L. C. (1990). Motivating and monitoring JIT supplier performance. *Journal of Purchasing and Materials Management*, 26(3), 19-24.
- Görg, H., & Strobl, E. (2004). Foreign direct investment and local economic development: Beyond productivity spillovers. *Globalisation, Productivity and Technology Research Paper*, (2004/11).

- Gorodnichenko, Y., Svejnar, J., & Terrell, K. (2007). *When does FDI have positive spillovers? Evidence from 17 emerging market economies* (No. 3079). IZA Discussion Papers.
- Gupta, M., & Zhender, D. (1994). Outsourcing and its impact on operations strategy. *Production and Inventory Management Journal*, 35, 70-70.
- Hahn, C. K., Watts, C. A., & Kim, K. Y. (1990). The supplier development program: a conceptual model. *Journal of Purchasing and Materials Management*, 26(2), 2-7.
- Hennink, M., Hutter, I., & Bailey, A. (2010). *Qualitative research methods*. Sage.
- Jacobides, M. G., & Winter, S. G. (2005). The co-evolution of capabilities and transaction costs: Explaining the institutional structure of production. *Strategic Management Journal*, 26(5), 395-413.
- Javorcik, B. S., & Spatareanu, M. (2011). Does it matter where you come from? Vertical spillovers from foreign direct investment and the origin of investors. *Journal of Development Economics*, 96(1), 126-138.
- Jordaan, J. A. (2011). Local sourcing and technology spillovers to Mexican suppliers: How important are FDI and supplier characteristics?. *Growth and Change*, 42(3), 287-319.
- Kendall, J. (1999). Axial coding and the grounded theory controversy. *Western Journal of Nursing Research*, 21(6), 743-757.
- Krause, D. R., Scannell, T. V., & Calantone, R. J. (2000). A structural analysis of the effectiveness of buying firms' strategies to improve supplier performance. *Decision Sciences*, 31(1), 33-55.
- Lechmann, M. (2011). Economies of scale and scope.
- Levine, R. (1997). A geography of time: The temporal misadventures of a social psychologist, or how every culture keeps time just a little bit differently. *Basic Books*.
- Mayer, F., & Gereffi, G. (2010). Regulation and economic globalization: Prospects and limits of private governance. *Business and Politics*, 12(3).
- McCall, W. (1998). Nike battles backlash from overseas sweatshops. *Marketing News*, 32(23): 14.

- Menkhoff, T. (1992). Chinese Non-Contractual Business Relations and Social Structure-the Singapore Case. *International Quarterly for Asian Studies*, 23(1/2), 261-288.
- Mitchell, C. (2009). Collaborating to Compete – the missing middle: Working together to make Economic Development Effective & Competitive at the Local Level. February.
- Monczka, R. M., Trent, R. J., & Callahan, T. J. (1993). Supply base strategies to maximize supplier performance. *International Journal of Physical Distribution & Logistics Management*, 23(4), 42 - 54.
- Morgan, J. (1993). Supplier programs take time to become world class. *Purchasing*, 19(August), 61 - 63.
- Ockborn, F. (2007). *Views on Barriers to Successful Code of Conduct Implementation: A case study of H&M and its suppliers in India* (Doctoral dissertation, Stockholm).
- Palazzo, G., & Scherer, A. G. (2006). Corporate legitimacy as deliberation: A communicative framework. *Journal of Business Ethics*, 66(1), 71-88.
- Pennink, B.W. (2012). From Family Based to Industrial Based Production: Local Economic Development Initiatives and the HELIX Model. *The Asian Journal of Technology Management (AJTM)*, 5(2).
- Quinn, J. B., Doorley, T. L., & Paquette, P. C. (1989). Beyond products: services-based strategy. *Harvard business review*, 68(2), 58-60.
- Ritzer, G. (2011). *Globalization: the essentials*. Wiley. com.
- Scherer, A. G., & Palazzo, G. (2011). The new political role of business in a globalized world: A review of a new perspective on CSR and its implications for the firm, governance, and democracy. *Journal of Management Studies*, 48(4), 899-931.
- Schuffel, R.E.W. (2013). Channel Captains and their impact on local economic development: Evidence from the textile industry in Tanzania.

- Sica, E., & Reganati, F. (2007). Horizontal and vertical spillovers from FDI: evidence from panel data for the Italian manufacturing sector. *Journal of Business Economics and Management*, (4), 259-266.
- Sinani, E., & Meyer, K. E. (2004). Spillovers of technology transfer from FDI: the case of Estonia. *Journal of comparative economics*, 32(3), 445-466.
- Smeets, R. (2008). Collecting the pieces of the FDI knowledge spillovers puzzle. *The World Bank Research Observer*, 23(2), 107-138.
- Staritz, C., & Morris, M. (2013). Local embeddedness, upgrading and skill development: global value chains and foreign direct investment in Lesotho's apparel industry.
- Sturgeon, T. J. (2008). From commodity chains to value chains: interdisciplinary theory building in an age of globalization.
- Takii, S. (2005). Productivity spillovers and characteristics of foreign multinational plants in Indonesian manufacturing 1990–1995. *Journal of Development Economics*, 76(2), 521- 542.
- Temple, B. (2008). Narrative analysis of written texts: Reflexivity in cross language research. *Qualitative Research*, 8(3), 355-365.
- Temple, B., & Edwards, R. (2008). Interpreters/translators and cross-language research: Reflexivity and border crossings. *International Journal of Qualitative Methods*, 1(2), 1- 12.
- Temple, B., & Young, A. (2004). Qualitative research and translation dilemmas. *Qualitative research*, 4(2), 161-178.
- Treacy, M., & Wiersema, F. (1993). Customer intimacy and other value disciplines. *Harvard business review*, 71(1), 84-93.
- van Nes, F., Abma, T., Jonsson, H., & Deeg, D. (2010). Language differences in qualitative research: is meaning lost in translation?. *European journal of ageing*, 7(4), 313-316.
- UNDP: Creating Value for All: Strategies for Doing Business With the Poor – July 2008
- Wang, J. Y., & Blomström, M. (1992). Foreign investment and technology transfer: A simple model. *European economic review*, 36(1), 137-155.

Watts, C. A., & Hahn, C. K. (1993). Supplier development programs: an empirical analysis. *Journal of Supply Chain Management*, 29(2), 10-17.

Winkler, D. (2013). Potential and Actual FDI Spillovers in Global Value Chains

## Appendix I: Interview

### Laddering technique

- 1) Long time ago firms produced their products a lot closer to home and there was no international sourcing. In this day and age a global value chain is necessary to compete with the competitors. How was this for [company's name]? Did they source in the beginning from the NL or did they have an international sourcing for a long time? What are the consequences of this trend?
- 2) Why does [company's name] purchase nutmeg from the Ambon Islands in Indonesia?
- 3) What are the requirements introduced by [company's name] where the producers need to comply with?
- 4) Why are these standards/requirements important for [company's name]?
- 5) How does [company's name] make sure these requirements are fulfilled?
- 6) What does [company's name] want to achieve when introducing these requirements?

### Introduction

- 1) Are there different laws/ requirements from the EU/Netherlands where [company's name] needs to comply with?
- 2) What happens if [company's name] has difficulties to comply with the introduced requirements?
- 3) Does [company's name] know what the consequences are for the producers on these requirements?
- 4) With regard to the nutmeg production what is the reason that there are difficulties to comply with the introduced requirements?
- 5) Are the nutmeg producers aware of the requirements and why is it difficult for them to meet these requirements?
- 6) Are there initiatives introduced to reduce this gap?



### Foreign investors characteristics

- 1) To what extent owns [company's name] the production facilities in the Ambon Islands (Indonesia)?
- 2) Is there to any degree foreign ownership in the production facilities, and if so how can you best describe the structure?
- 3) Since when purchases [company's name] nutmeg from Ambon Islands?
- 4) To what extent does the nutmeg production require a technological intense production process?
- 5) Does [company's name] notices a difference between a clock time society (The Netherlands) and an event-time society (Indonesia)?
- 6) Does [company's name] buys nutmeg solely from the island Ambon? And how many producers of nutmeg are there in the Ambon Islands?

### Absorptive capacities

- 1) Is there a technology gap between [company's name] and producers? If so, what is the consequence of this gap?
- 2) Is Research and Development (R&D) present in the Ambon Islands and does [company's name] encourage the producers to acquire knowledge and develop their production process?
- 3) Is skilled labor present at the production facilities?
- 4) Are the producers cooperating when producing nutmeg?

### Transmission channels

- 1) Does [company's name] demand better and/or more diverse inputs?
- 2) Does [company's name] assist producers to upgrade their technological capabilities indirectly or directly through for example sharing of production techniques/ product design/ assisting with technology acquisition?
- 3) Do the producers receive personal training and/or help with quality assurance and organization of the product?

### Supplier development strategies

Do you use one of the following suppliers' development strategies:

- 4) Does [*company's name*] use more than one supplier for a purchased item or service or is [*company's name*] willing and capable to switch to an alternate supplier?
- 5) Does [*company's name*] assess suppliers on its quality, cost technical and managerial capabilities? (other characteristics than the quality of the product?)
- 6) Does [*company's name*] give feedback to clarify their expectations and provide the supplier with direction for improvement?
- 7) Does [*company's name*] provide supplier incentives for improvement to their suppliers which could include increased volumes of present business and priority considerations for future business for the best suppliers?

## Appendix II: Data analysis strategy

	Strategy		
	Customer Intimacy	Product Leadership	Operational Excellence
1. Why purchase the product from the sourcing country?			
Largest producer of the spice due to the commodities		1	2
We've build a relationship with the suppliers since we always purchased there		3	
Qualitative products		3	
2. What are the requirements where the suppliers need to comply with?			
Standards		4	
European and Dutch law		2	1
Requirements of the End-User		2	2
3. How does the company make sure these requirements are being fulfilled?			
Motivate the suppliers		3	
Standards		2	
Audits and audits questionnaire		4	
Sample		2	
A treatment to make sure the products fulfill our requirements		1	
Premiums		1	
Build a relationship		2	
Managing of the requirements			1
Provide information			1
Value the farmers			1
4. Why are these requirements important?			
Homogenous products			1
Satisfy our own conditions		2	1
Give guarantees to the End-User		4	1
Meet the needs of the End-User		1	1
Meet the needs of the Law		2	1
Traceability		1	
Risk Management		3	
5. What does the company wants to achieve with these requirements?			
A stable supply chain		1	
Qualitative products		4	
Develop the people and the area		2	1
Make the farmers aware			1
Product stability			1
Help the End-User by taking care of a part of their supply chain			1
6. Are the producers aware of the requirements ?			
We need to educate them so that they understand it		1	1
Some actors orientate themselves in the international market			1
Select the suppliers who understand the requirements		1	
The farmers are not aware of the requirements		3	
The suppliers are aware of the requirements		1	

### Appendix III: Data analysis governance mechanism

	Governance structure				
	Markets	Modular value chains	Relational value chains	Captive value chains	Hierarchy
1. Why purchase the product from the sourcing country?					
Largest producer of the spice due to the commodities		1	1		1
Build a relationship with the suppliers since we always purchased in that country		3			
Qualitative products		3			
2. What are the requirements where the suppliers need to comply with?					
Standards		4			
European and Dutch law		2			1
Requirements of the End-User		2	1		1
3. How does the company make sure these requirements are being fulfilled?					
Motivate the suppliers		3			
Standards		2			
Audits		3			
Audit questionnaire		2			
Sample		2			
A treatment to make sure the products fulfill our requirements		1			
Premiums		1			
Build a relationship		2			
Managing of the requirements					1
Provide information				1	
Value the farmers				1	
4. Why are these requirements important ?					
Homogenous products					1
Satisfy our own conditions		2			1
Give guarantees to the End-User		4	1		
Meet the needs of the End-User		1			1
Meet the needs of the Law		2			1
Traceability		1			
Risk Management		3			
5. What does the company wants to achieve with these requirements?					
A stable supply chain		1			
Qualitative products		4			
Develop the people and the area		2	1		
Make the farmers aware			1		
Product stability					1
Help the End-User by taking care of a part of their supply chain					1
6. Are the producers aware of the requirements ?					
We need to educate them so that they understand it		1			1
Some actors orientate themselves in the international market			1		
Select the suppliers who understand the requirements		1			
The farmers are not aware of the requirements		3			
The suppliers are aware of the requirements		1			