Value Chains and the Business System Upgrading in Global Value Chains

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Abstract

Summaries Garment firms are typical of the poor state of Kenyan industry. Production has declined and, with it, employment. New investment is minimal, so firms are producing inefficiently using outdated equipment. Many larger firms have closed, while small and micro enterprises have proliferated. Only the tiny minority of enterprises that is capable of producing for export seems to be doing well. Why should this be so? And what can be done about it? To answer these questions, this article develops and applies a simple model that incorporates two theoretical perspectives: value-chain analysis and the business systems approach. The value-chain approach first enabled us to describe several distinct garment chains with production facilities in Kenya. It also highlighted the differences between these chains and enabled us to distinguish issues affecting each of the stages within a given chain. We found, for example, that production issues dominate the main export chain because their other functions – design, supply, and distribution – take place outside of Kenya. The business-system perspective supplemented and complemented the value-chain analysis by pinpointing the institutional causes of many of the problems facing the industry. Not surprisingly, given its continued dominance of the economy, the state is held responsible for many of the industry's difficulties. Also important are the technology system, the labour system, and firm-level institutions in the textile industry. Since the study is ongoing and, therefore, incomplete, the analysis was able to identify only a few areas that are ready for immediate policy intervention; others will require further investigation.