

# Business associations and local development: The Okanagan wine industry's response to NAFTA

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## Abstract

Business associations (BAs) represent a widely prevalent institution contingent upon a plethora of regional and industrial contexts around the world. Although their role in local development is rarely highlighted this paper argues that analysis of the structure and strategies of BAs reveals important insights into the problematic nature of external economies, typically based on the willingness of highly independent small firms to share and possibly fund some common service(s). BAs illustrate cooperative behaviour and their fragmentation indicates limits to cooperation and thereby to the contested nature of this particular external economy. Conceptually, the paper interprets BAs as institutional expressions of local cooperation and theorizes their strategy and structure in terms of a 'logic of exchange' model. This model defines the relationships between BAs, their members (organizational domains) and governments in terms of the logics of 'membership' and 'influence' that help understand the opportunities afforded and tensions imposed by the rationale and dynamics of cooperation. Empirically, the paper examines the formation and performance of BAs in the restructuring of the Okanagan's wine industry that was stimulated by the Free Trade Agreement (FTA) between the US and Canada in 1989 and the North American Free Trade Agreement (NAFTA) of 1991. In the Okanagan wine industry, a newly formed BA was vital in helping firms overcome the crisis generated by free trade. However, subsequent fragmentation that arose out of member disenchantment with logics of influence and membership, indicated limits to local cooperation that may constitute a significant diseconomy in a future crisis.

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## 1. Introduction

Business associations (BAs) represent a widely prevalent institution that in various forms are found around the world in many regional and industrial contexts (Bennett, 1998). From a local development perspective, BAs illustrate external economies of scale in the form of services of different kinds to populations of members that are beyond the means or willingness of individual members to provide internally. Yet, if they are frequently cited in studies of location dynamics and local development, the role of BAs is rarely highlighted or systematically explored; Bennett's

(1996a,b, 1998, 1999, 2000) comprehensive investigations are exceptional in this regard. As Bennett (1998, p. 1367) notes, BAs are important but scarcely dominating institutions in the realization of competitive advantages and they exhibit complicated, varying characteristics. Indeed, BAs are highly contingent on local circumstances, and are frequently (but not invariably) strongly shaped by the imperatives, functions and attitudes of small and medium-sized enterprises (SMEs).

This paper seeks to contribute towards a better understanding of BAs in local development via a specific regional and sectoral case study of the wine industry in the Okanagan region of British Columbia (BC), Canada. The paper focuses especially on the role of BAs in the restructuring of the Okanagan's wine industry that was stimulated by the

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Free Trade Agreement (FTA) between the US and Canada in 1989 and the North American Free Trade Agreement (NAFTA) of 1991. The FTA and NAFTA fundamentally changed the competitive environment of the Okanagan wine industry. Hitherto, the industry had developed around a few locally based firms that supplied cheap wine to local markets that were protected from foreign competition. The trade agreements, however, signaled the removal of this protection and threatened the import of large volumes of US-based wines that served all market segments. Both the industry and the BCs provincial government anticipated competitive salvation by an up-market shift to better quality wines produced by an increasing number of small and medium-scale producers. In practice, a cornerstone initiative of the provincial government was the creation of the British Columbia Wine Institute (BCWI) under the British Columbia Wine Act (Bill 58-1990) in 1990. The BCWI is a BA that provides various services, most notably related to marketing, and in 1990 all wine producers in BC were required to become members, 99% of which were located in the Okanagan Valley. This analysis focuses on the structure and performance of the BCWI from its inception to 2003 in stimulating the Okanagan wine industry's shift to higher value production.

The creation and behaviour of specific BAs reveal how an important form of external economy, that is normally strongly localized, is formally instituted and evolves. An important theme in recent regional development literature has emphasized the role of cooperation among firms, especially in relation to SMEs, in the realization of local competitive advantage (Patchell, 1996; Storper, 1997; Cooke and Morgan, 1998). BAs are a formal expression of such cooperation. Yet, the oft-noted 'independence' of SMEs raises questions about the commitment to cooperate, as does the tendency of BAs to fragment, that is for members to quit. Bennett's (1996a,b, 1998, 2000) studies of the population characteristics of BAs in the UK have impressively revealed variations in their structure, performance and motivation, why members join and leave, and the implications for government policy. As a compliment to his macroanalyses, this study focuses on one main case study in a specific regional-sectoral setting. If less amenable to formal hypothesis testing, the contributions of our approach lies in what might be termed 'the value of concreteness', that is the revelation and understanding of actual *and dynamic* behaviour, shaped by specific events and local circumstances. Moreover, our approach explicitly links BAs to local development issues, especially by connecting to literatures on agglomeration economies (and clustering and networking).

Conceptually, this paper interprets BAs as problematic institutional expressions of local cooperation, collaboration or networking. From a local development perspective, the paper seeks to theorize the strategy and structure of BAs by drawing particularly on the 'logic of exchange' model of BAs, as developed in the business organization literature (Schmitter and Streeck, 1981; Van Waarden, 1992; see Bennett, 2000). This model interprets the relationships between

BAs, their members (organizational domains) and governments in terms of the logics of 'membership' and 'influence' that help understand the opportunities afforded and tensions imposed by the rationale and dynamics of cooperation (within BAs). Empirically, the analysis draws primarily on personal interviews with 53 respondents representing wine growers, the British Columbia Wine Institute (BCWI), and other associations. These interviews explored the rationale, functions and fragmentation of the BCWI at its formation and until 2003, most especially with respect to marketing. The analysis highlights both the success and fragmentation of the BCWI in relation to tensions in the logics of membership and influence, and the extent and limits of cooperation.

## 2. Business associations, cooperation, and local development

There is now much appreciation of the significance of cooperation in enhancing regional competitive advantage and that competition and cooperation are not mutually exclusive and antagonistic. According to Patchell (1996, p. 481) cooperation is "a voluntary relationship entered into for mutual egoistic benefit and its evolution is promoted by localization of a population" as "the region [is] the most likely source for the evolution of cooperation" that increases the "likelihood that people will enter into repeated interactions" (Patchell, 1996, p. 496). BAs widely reflect voluntary cooperation (Bennett, 2000). More generally, local populations of firms constitute social groups characterized by personal contacts, a sense of local belonging and leadership and are able to "check one another's expectations regarding participation in collective action and to develop social ties, group identities and social control to discourage free ridership" (Van Waarden, 1992, p. 534). Even as competitors, local firms provide community cohesion and solidarity (Schmitter and Streeck, 1981, p. 14).

Cooperation among firms is manifested in numerous ways. Izushi (2002), for example, distinguishes direct and implicit cooperation through informal channels; direct bilateral and multi-lateral ties with other firms such as suppliers and buyers, and sometimes the state; and inter-firm communications within joint ventures and business associations. Within economic geography and related literature, Marshallian agglomeration economies have long acknowledged the power of localized cooperative behaviour in facilitating competitive advantage in the form of access to appropriately skilled labour pools, knowledge transfers and spillovers, the development of scale and scope economies including with respect to BAs, and marketing and lobbying power (Sunley, 1992). Indeed, Marshallian agglomeration economies cast a considerable shadow over the recent upsurge of related literatures on learning regions, clustering, flexible specialization, networking and industrial districts (Lagendijk and Oinas, 2005a). Recent studies, however, have probed and clarified the institutional structures underlying agglomerations. Lorenz (1992), for example, notes that the exchange of goods and services,

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