

Danson, Mike W.; Whittam, Geoff

Conference Paper

The Role of Power in Clustering

39th Congress of the European Regional Science Association: "Regional Cohesion and Competitiveness in 21st Century Europe", August 23 - 27, 1999, Dublin, Ireland

Provided in Cooperation with:

European Regional Science Association (ERSA)

Suggested Citation: Danson, Mike W.; Whittam, Geoff (1999) : The Role of Power in Clustering, 39th Congress of the European Regional Science Association: "Regional Cohesion and Competitiveness in 21st Century Europe", August 23 - 27, 1999, Dublin, Ireland, European Regional Science Association (ERSA), Louvain-la-Neuve

This Version is available at:

<http://hdl.handle.net/10419/114399>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

The Role of Power in Clustering

Mike Danson & Geoff Whittam, University of Paisley, Scotland.

In previous papers submitted to the ERSA Annual conference we have identified the development of networking and clustering within the context of Scotland (Danson and Whittam, 1997 and 1998) and the necessity of understanding the nature of trust and cooperation if a clustering strategy is to be successful (Danson and Whittam 1999). Building on these previous contributions and through empirical research on a typical cluster, the Scotch Whisky industry (Danson and Whittam 1999a), we have concluded that current research on clustering is missing a significant point, that of power relationships within clusters. In some respects this is hardly surprising given that... "Neoclassical economics is not without an instinct for survival. It rightly sees the unmanaged sovereignty of the consumer, the ultimate sovereign of the citizen and the maximisation of profits and subordination of the firm to the market as the three legs of a tripod on which it stands. These are what exclude the role of power in the system." (Galbraith 1973 p.5). In other words the paradigm in which neoclassical economics is situated fails to reveal the power relationships which are apart of the typical capitalist economy.

In our study of the Scotch Whisky industry, an industry which we describe as a classic cluster, adopting a typical structure-conduct-performance approach we became all too well aware that the industry was dominated by an oligopolistic market, albeit with a competitive fringe. In this respect the Scotch whisky industry is not untypical of other 'key sectors' which have been identified by the development agency for Scotland, Scottish Enterprise, as suitable candidates for their clustering strategy. We then began speculating whether the imbalance of power in oligopolistic markets is a problem for strategies focusing on regional economic growth through clustering. Our understanding of clustering is that by bringing together the key players in a spatially defined area then economies can be achieved via synergy, each of the key players having a specialisation. The achievement of synergy can lead to competitive advantages for regional economies. The idea behind clustering and the non-spatially specific networking approach to regional economic development has been given a boost by policy initiatives in the United Kingdom including the publication of the recent *White Paper on the Knowledge Based economy* (DTI 1998). Much of knowledge creation is tacit and hence non-transferable; this therefore re-emphasises the spatial dimension of a clustering strategy.

A further development within this paper is that we argue that it is legitimate to adopt a *Coasian* approach to analyse clusters. This is because we believe that bringing together specialised players within one organisation can be viewed as precisely what a firm undertakes. Put another way, a firm can be seen to consist of specialist units combining to produce goods and services. We therefore agree with Steiner (1998) that a cluster can be regarded as 'a regional productive system' a point put more strongly by Tichy (1998 p228) "today's clusters are a substitute for yesterday's hierarchical firms". An understanding of the relationships involved in clustering can be gained by utilising the methodology adopted to analyse the nature of the firm. In particular certain aspects of this literature highlight the need to understand the nature of power to comprehend the decision making process within the firm, and by extension beyond that within the

cluster. Recent work originating, but radically developing, the *Coasian* framework, highlights, among other things, an understanding of managing relationships within organisations where power is not evenly distributed. This arises out of the definition of the firm as ... “a nexus of strategic decision-making” (Cowling and Sugden 1998 p.61) The ability to secure the outcome you desire, the strategic decision making to be in your favour, in an organisation composed of several component yet inter-related parts, involves an exercise of power. We therefore utilise this framework to help fill the gap - namely an appreciation of the power relationships which we believe exists within the current literature on clustering. It is to a brief discussion of the vast *Coasian* literature that we now turn. The second section will then apply this theoretical background to an examination of the role of power within what we analyse as a classic industrial structure - the Scotch Whisky industry. The penultimate section will highlight policy initiatives from this application and we conclude by identifying issues which this paper has developed and ways forward for further research.

1. Clustering and the Nature of the Firm.

As we outlined in the introduction, in this section we wish to utilise the methodology employed by theorists to understand the *Nature of the Firm* (Coase 1937). The reason for doing this is that clustering relationships, encompassing as they do all aspects of the production process in one organism, can be likened to one firm. The objective of the clustering relationship is to achieve synergy from the participation of all the key players within the one organisation, in a similar fashion that a firm may seek to do likewise. Importantly though for our perspective, in studying firms, some theorists highlight the role of power within the relationships which arise out of team production, this being necessary for production within the firm. As we commented within the introduction, this is largely absent from the analysis offered thus far in the literature on clustering. From the outset, Coase (1937), in posing the question of why firms exist, explains that there are costs involved in using the price mechanism and that these costs may be reduced by “coordinating production” within an organisation, that organisation being the firm. Within Coase, “the suppression of the price mechanism” is by “the entrepreneur-coordinator who directs production”. However, importantly for Coase, the method of coordinating by the entrepreneur involves the exercise of power.. “Yet in the real world...If a workman moves from department Y to department X, he does not go because of a change in relative prices but because he is ordered to do so....As D.H. Robertson points out, we find ‘islands of conscious power in this ocean of unconscious cooperation like lumps of butter coagulating in a pail of buttermilk’” (Coase (1937) p.90-91 citing D.H. Robertson (1930)). In a similar vein, Putterman (1996) argues a firm entails.. “(a) long-term contracts between at least some input providers and (b) an assignment of control rights in which some agents hire others and direct them in activities of production.” (Putterman 1996 p.8) These two points can equally be said to be applicable to clusters. The significance of what Putterman is highlighting is two fold; firstly, what we have already noted in Coase is the idea that within any organisation where production is taking place there is a necessity for this production to be directed. Secondly, any organisation implies not merely a single firm but any combination of intra-firm, inter-firm and other public/private agents, for our purposes clusters, that make up a production process. Additionally, wherever there is a decision making process in place where a decision is taken against the wishes of one of the partners in the cluster then an exercise in power has been undertaken. Within the work of Cowling and Sugden there is a recognition that strategic decision making by a

firm affects more agents than those legally bound by the boundaries of the firm.... “it may be argued that the power to make strategic decisions is the power to plan the overall direction of production in the firm. This includes the power broadly to determine a firm’s geographical orientation, its relationship with rivals, with governments and with its labour force.” (Cowling and Sugden 1998 p.64)

Coase himself explains the framework in his reflections on the influence of his seminal work... “And this has tended to submerge what to me is the key idea in ‘*The Nature of the Firm*’): the comparison of the costs of coordinating the activities of factors of production within the firm with the costs of bringing about the same result by market transactions or by means of operations undertaken within some other firm.” (Coase 1991 in Williamson and Winter 1991 p.65). Now, whilst Cowling and Sugden are happy to utilise the Coasian framework, “We find the idea of firms as means of coordinating production an appealing starting point” (Cowling and Sugden 1998 p.62), they, amongst many others, are critical of the dichotomy of market versus non-market relationship as proposed by Coase. This is not our concern in this paper. What is of interest is the method utilised by Coase, and refined by Cowling and Sugden, that the issues involved in understanding the firm can be applicable to an understanding of clusters. More significantly for this paper we are highlighting the absence of an understanding of power relationships within clustering in the current literature. There are exceptions to this absence such as Mizahi (1998) who applies the framework of public choice and game theory to analyse the potential conflicts which may arise through decentralisation of public policy in an effort to encourage innovative and high-tech industries. We feel the work of Cowling and Sugden, originating from the Coasian framework yet moving on from Coase, and accepting their definition of the firm, implies that the dichotomy between market and non-market relationships - so fundamental to Coase - is no longer valid; this provides a framework for gaining a real understanding of clustering strategies. In particular the location for strategic decision making in a cluster embraces the region as a whole not merely the boundaries of one organisation. We are arguing that this same starting point can be utilised for an understanding of the existence of clustering. This means that there must be a reduction in transacting costs for agencies involved in a cluster for one to exist and the reduction of these costs must result in a potential competitive advantage of the cluster and hence for the local economy. For Cowling and Sugden the main issue within the firm, and for our purposes the cluster, is the method whereby strategic decisions are undertaken. Thus, strategic decision making within the cluster affects not merely the key firms within the cluster but also all the major players and so the subsequent development of the local economy. To demonstrate this we utilise a study of what we term a classic cluster, namely the Scotch Whisky industry. This study is a part of research carried out on behalf of the Scottish Trades Union Congress (STUC) and the Scotch Whisky Association (SWA).¹

2. The Scotch Whisky Industry

As one of the longest established genuinely global industries with a market reach spanning 200 countries. The Scotch Whisky industry is one of the most significant

¹ *The Scotch Whisky Industry - current performance and future prospects - priorities for improvement.* Available from the authors Mike Danson and Geoff Whittam at the University of Paisley

sectors in the UK and Scottish economies in terms of employment, exports and government revenues. It is of strategic importance with regard to:

1. overseas trade - it is consistently one of the UK's top five export earners, with sales abroad of £2.4 billion, it is second only to the electronics sector in manufacturing exports from Scotland;
2. domestic consumption - about £2 billion of retail sales are generated in the UK, accounting for 40 per cent of UK spirit sales;
3. environmentally friendly production - with a product using entirely natural resources and processes, generating virtually no pollution, and benefiting from constantly improving industry standards and innovative practices;
4. employment - with about 10 thousand direct jobs in Scotland, often in small rural and disadvantaged locations; and high backward and forward linkages creating three times as many jobs elsewhere in the Scottish economy, supporting over 30 thousand in total and 60 thousand in the UK as a whole.

However, despite this apparent success, there is continuing concern over the future of the industry. This arises for a number of reasons: high rates of taxation in the UK and overseas; a relative decline in the sales of Scotch Whisky at home; a falling real price; and substitution of other forms of alcohol. Further, competing in so many mature markets, both at home and overseas, the task for the industry is now to grow the market. Without an expanding market, static sales and improving technology will mean fewer jobs: jobless growth. Indeed over recent years there has been significant loss of employment across the industry, with distilleries, bottling plants and office employment all being affected. It is this which is at the centre of our argument. Whilst the Whisky industry is highly successful for the major companies some of the key players in the cluster have not fared so well, particularly the workers and some of the communities in some of the most fragile areas of the European Union.

As the industry provides so many jobs and incomes in fragile parts of Scotland, and in particular in areas recognised by the EU and the UK Government as some of the most deprived and underdeveloped in Europe, addressing these threats is of the utmost significance to the economic well-being of many communities in Scotland - in both urban and vulnerable rural areas. The research reported here is part of this study which reviewed the sector, its firms and workforce, trade and taxation, linkages, ownership and prospects, as proposed by the Scottish Trades Union Congress (STUC) and The Scotch Whisky Association (SWA).

2.1 Methodology

Because of the importance of Scotch Whisky to the economy, and its obvious attractions as a research area, much has been published and is known about the sector already. An unusually strong trade association (The Scotch Whisky Association which, given our knowledge and analysis of the other such bodies in Scotland, we would describe as particularly dynamic and well-informed) and industry have produced a range of literature and background information which have provided a useful supplement to the official statistics and reports on the industry conducted by the Scottish Office, Scottish Enterprise (SE), Highlands and Islands Enterprise (HIE), the European Commission (EC), and others. However, as many of these were directly based on the research and analysis of The Scotch Whisky Association itself, the critical analysis and review of these secondary sources of knowledge was more limited than we had anticipated. This made the views and proposals of the industry even more significant in informing the study.

Initial analysis confirmed the structure (output, investment, sales, exports, company size, employment, linkages, value added, etc.) and business environment (taxation regimes, profitability compared with sector averages, exchange rate sensitivity, market analyses, EU and WTO regulations, etc.) of the Scotch Whisky industry, although reworking of the statistics on value added led to some significant revisions in the apparent performance of the sector. As well as providing the background to the examination of the Scotch Whisky industry, this identified the key problems and challenges facing the sector in the short and longer terms.

To analyse the strategies and likely scenarios planned for the future by the enterprises and authorities active in the Scotch Whisky industry, it was necessary to undertake further research to extend this recorded and formal assessment of the sector. Therefore, the industry was studied by way of a series of interviews with the key players to confirm the issues identified in the secondary research and, in the light of these, to determine probable developments over the next few years as the industry and the authorities react to these changes in their business environment. Prime amongst these interviewees were The Scotch Whisky Association, leading distillers, distributors, and others in the supply chain; the STUC and the main Scotch Whisky trades unions; Scottish Enterprise, Highlands and Islands Enterprise, Scottish Trade International, Locate in Scotland, Scottish Office, and the Scottish Tourist Board. Several of the latter agencies were reluctant to participate fully in the study because of their limited interaction with this major sector. Further comments on this strategic stance are discussed below.

A series of 26 one hour semi-structured interviews was held with a number of the key players in the sector, each covering a range of issues. Given the geographical range of the enterprises and the communities affected, interviews were conducted across Scotland, covering all the stages in the production process: from distilling to bottling, packaging and distribution. As planned, the first evaluation of the issues facing the Scotch Whisky industry confirmed that the interviews should seek views on how the sector will develop over the next few years in the light of anticipated changes in taxes and duties, tariffs, ownership and control, employment and the labour force (including the minimum wage, increased flexibility and mobility, training and skill demands), devolution, investment and patterns of trade.

Most studies identified have tended to present their findings in isolation from the more traditional tools of the economic analyst. In presenting our commentary, therefore, we have stressed the importance of considering the Scotch Whisky industry as *an industry* first and foremost, applying economic techniques to analyse the sector and its component enterprises.

2.2 Analysis of the structure-conduct-performance of the Scotch Whisky Industry

We adopted the *structure-conduct-performance* approach as a useful framework for considering such industries. This links the market structure, or competitive environment in the industry, with the corporate behaviour or conduct of the firms, and with the performance of these firms, in particular their efficiency. Each of these three factors influences and is influenced by the other two. By studying the relationships and interrelationships between the market characteristics, the policies and behaviour of the enterprises and the performance of the firms and markets, it is possible to gain valuable insights into the operation and development of the industry.

Supply and demand conditions determine the structure of the market. *Economies of scale and scope*, and *learning effects* or experience are the dominant demand factors

and the *elasticity of demand* (how responsive sales are to price and income changes) the most important supply factor.

The most common way of defining structure is in terms of the number and size distribution of firms within the industry, so determining the degree of *market* or *seller concentration*. A second significant structural feature is the extent of *barriers to entry* to the market. Other factors can include product differentiation - created especially by advertising and branding, and by *vertical integration*, *conglomerate integration* or *diversification*. Having evolved from the cottage industry of last century through an ongoing series of mergers and take-overs, the Scotch Whisky industry today is dominated by a relatively few players, although there is the vitality from the medium range of producers with their own integrated production and marketing operations, and a *competitive fringe* continues to survive - able to purchase Scotch Whisky direct from the distilleries and blend and bottle their product to their own recipe. A web of intricate interdependencies between different stages of production and different players underpins the healthy state of competition in the industry. The three major players (Diageo, Allied-Domecq and Seagrams) control about 80 per cent of all Scotch Whisky production, with the second level of companies (including Highland Distillers, Whyte & Mackay, William Grant and Glenmorangie) contributing a further 10 per cent. The pre-eminent position of the former group suggests an industry under a potential threat of oligopoly pricing and output decision making, with production collectively reduced to maximise profits. The conduct and performance of the sector is critical, therefore, in guarding against this.

Market conduct refers to the *strategies* adopted by the enterprises in the industry and can encompass *policies* regarding pricing, marketing, advertising, employment, growth and take-overs, and strategies around competition or collusion with rivals. Generally, the fewer the number of firms in an industry the greater the threat of collusion over price and a reliance on non-price competition e.g. through advertising. The existence of a wholesale market in malt and blended Scotch Whiskies means that in many ways there is a *contestable market*. That is, although there are very high barriers to entering the distillation stage of production, the industry continues to make the product available to other smaller blenders and bottlers. This *competitive fringe* reflects some of the historical origins of the industry and the long tradition of independent marketeers purchasing the raw product for blending for final sales to the retail public. So, the structural features of the industry are unusual, with the long maturation stage in the production process and the scale economies in bottling, marketing and distribution key to both the current behaviour and the future performance of the sector. Market performance can be affected by the structure and conduct of the firms in an industry and can be assessed in a number of ways. Chief amongst these are measures of efficiency, particularly *productive*, *technical* and *allocative efficiency*. An examination of *profit rates*, the *degree of technical progress* or the *rates of growth* of enterprises are all used to gauge performance. As noted above, there is a concern within the sector that this traditionally cyclical industry is also suffering from excesses of capacity in production and bottling facilities. This is exacerbating the contemporary problems brought on by the crises in the Far East and parts of Latin America, the job losses created by technological developments - especially in bottling, and the evolution in the UK of the young person's market towards designer beers and white spirit based concoctions. Nevertheless, physical output of both malt and grain Scotch Whisky was approaching record levels in 1997, with 471 million litres of pure alcohol (LPA)

produced. Malt whisky accounted for 193 million LPA, or 41 per cent, of output by volume and grain 278 million LPA, 59 per cent.

However, in value added terms this represented a decline of almost 20 per cent in ten years. As is increasingly noted, the spread of technology to new areas in the production of Scotch Whisky continues apace. But it should be remembered that this ancient process has already witnessed a series of significant closures and consolidations into fewer production sites (Brian Townsend claims almost 100 distilleries have disappeared over the last century, *Scotch Missed*, NWP, 1997) and a long history of take-overs and mergers that has left the industry dominated by a few giant conglomerates. Recent results highlight the differential exposure of different companies to the Far East and to the blended whisky markets. In each case of relative or absolute decline in sales and profits, peculiar factors are identified. Some have undoubtedly been exposed by the Far East financial crises and a reliance on the lower end of the market where competition is perhaps greatest from alternative drinks (Datamonitor market analysis report on UK wines and spirits, 5/10/98). Others have been attempting to secure a strategic change in their production and market portfolios with some encouragement from financial analysts. The latter repositioning is not being confined to the largest three producers - Diageo, Allied Domecq and Seagrams, with Highland Distillers and Glenmorangie ensuring that the industry is contestable, and that a competitive fringe drives the need for innovation and flexibility as much from within as from the threat from other alcoholic drinks.

The global spread of the market for Scotch Whisky ensures that peaks and troughs in production can be controlled and anticipated in quite sophisticated ways. However, competition from newer drinks and changing fashions at home have been intensifying the deleterious effects of the discrimination (tax and otherwise) against Scotch Whisky both in the UK and overseas. There has been much technological and marketing innovation in recent times, involving significant investment in just-in-time techniques, larger and more efficient bottling plants and distilleries. This has often been and continues to be at the expense of jobs in both the distilleries and the bottling plants located in high unemployment areas and in remote and fragile communities.

2.3 Scotch Whisky within a Wider Spirits Sector

It has been recognised above that the dominance of the Scotch Whisky industry by three giants is a mixed blessing. On the one hand their size and market power allows them to escape the dangers of short-term market fluctuations by spreading their risk, production and investments across time and locations. However, the potential and practice of consolidating production onto fewer sites can threaten local jobs and facilities, and could reduce the very diversity of the product base which gives Scotch Whisky such a market advantage over other spirits. This is especially vital for the development of the malt whisky market, where diversity of taste and other characteristics are believed to be key to the growth of this high value-added end of the industry. While Scotch Whisky does not necessarily have to innovate through new mixes and blends to attract a new consumer base, recently there has been a greater recognition that there is a need to improve the image of Scotch. Whether there are conflicts and so dangers for the Scottish economy of being so dependent on such a restricted number of multinational and multiproduct enterprises is conditional on a number of factors, some internal to the companies concerned, others affecting the industry as a whole. There is no inevitability that the multinational and multiproduct enterprises will forsake Scotch for other spirits in the marketplace, despite the much

shorter time periods to maturity for white spirits. The lower investment required to start up production of vodka and other mixer drinks products poses a threat to whiskies across the world. However, the taste and image of Scotch, the guarantee of quality, the status and aspirational characteristics of Whisky from Scotland, all allow a premium to be charged on the price, so profitability is high.

The past consolidations in the sector have not been to save struggling independents but rather to capture greater shares of the market. Other producers have been able to enter the industry, albeit primarily at the blending, bottling and packaging stages, suggesting that niche markets exist for further exploitation. Overall there has been a movement of the major Scotch producers into the other spirit trades, but this does not appear to have been at the expense of the core Scotch Whisky industry. While there is an increasing world domination of the spirit industry by these same huge conglomerates, the distilleries and bottling plants have not suffered from a lack of investment. Indeed, the ability of the large players to transfer their bottling and packaging facilities north of the border to the more efficient and modern Scottish plants is allowing a slower decline in employment and activity than would have been the case hitherto with such developments.

This apart, there have been significant job losses across the Scotch Whisky regions as technological changes have impacted throughout the supplier, production and distribution chain. That the bottling operations and grain distilleries will have to compete continuously for business within their respective corporations is clear and suggests that further rounds of cost-cutting may be necessary to sustain plants and employment. The position of the wider spirit sector, therefore, is perhaps not the greatest direct threat to Scotch Whisky. The strategy of constructing a structure of competing internal profit centres in the three large players makes it imperative that the industry in Scotland is able to perform to its full potential, at least to maintain the position of Scotch if not to capture progressively the production of the white spirits sectors.

3. Analysis and Issues

From this “highly localised process” we have seen the establishment of a top strategic manufacturing industry for the Scottish and UK economies. Using Porter’s analysis (Porter M.E., 1990, *The Competitive Advantage of Nations*), it can be seen (Figure 1) that the Scotch Whisky industry has benefited and developed in line with the four components of ‘Porter’s diamond’: namely, factor conditions; demand conditions; related and supporting industries; and firm strategy, structure and rivalry. Scotland possesses the natural attributes which makes the production of Scotch spirit a successful and profitable business. From the early production of Whisky, a skilled workforce developed to satisfy a strong home demand for Scotch which led to the development of supporting industries such as bottling plants, cooperages, distribution, packaging, etc. Whilst the industry is dominated by a few large companies, there is a competitive fringe and strong competition from close substitutes in the market for spirits. Industry/government regulation which states that for spirit to be called Scotch it must be distilled in Scotland, has led to the industry being established in specific geographical locations. Malt Whisky is usually classified in one of four main categories Highland, Lowland, Speyside and Islay according, to the location of the distillery in which it is made.

These locations now boast supply-side and demand-side linkages so that one can identify regional Whisky clusters. This evolution of an industry into a geographically

specific cluster is in line with the positive developments for the *Competitive Advantage of Nations* envisaged by Porter. Furthermore, in the Central Belt of Scotland, where the majority of employment is to be found, this competitive advantage is leading to the expansion of the clusters from purely Whisky to encompass aspects of other spirit production, such as bottling facilities for white spirits.

In this context, and given the promotion of the idea of 'industrial clusters' (Figure 2) by Scottish Enterprise (*The Clusters Strategy*, Scottish Enterprise, 1998), there would be benefits in the recognition of Scotch Whisky (and white spirit production) as a distinctive industrial cluster in Scotland. However, as yet the Scotch Whisky industry is subsumed within a wider 'food and drink' cluster (Figure 3 and 4). As reported above, many of the key actors in the field, but especially those with a statutory responsibility for economic development including Scottish Enterprise and Highlands and Islands Enterprise, have neglected the role and position of the spirits industry in Scotland - partly because it is 'too big to address adequately.' The theory of clustering (Danson and Whittam 1998 and 1999) suggests that they should explore the advantages of closer links within and across the sector and should consider how these could be improved.

Further, the latest high-powered strategic research by Scottish Enterprise, *The Global Companies Enquiry* (1998), argues for an innovative and pro-active approach to helping improve Scotland's performance in growing indigenous global companies. The logic of the clustering strategy and of the embryonic global companies strategy is that the Scotch Whisky industry should be promoted as the core of a sector which can compete in world markets and stimulate further indigenous economic development. Given the industry needs to address a series of opportunities and changes, the arguments of Cowling and Sugden (1998) suggest that it is particularly important that the Scotch Whisky sector is inclusive in its discussions and approach to the future. If the cluster is to evolve successfully, then there is an imperative that the trades unions especially must be fully involved in the development and implementation of industry strategies with regard to training, employment and investment. The failure to give ownership over the textile industry body in Ayrshire (Danson and Whittam 1998) was instrumental in the lack of the generation of trust and cooperation within that cluster, with its eventual demise inevitable.

In a similar vein, the need for improved links between the Scotch Whisky industry and the tourism sector specifically has been neglected and we would argue should now be encouraged. There is a need for a recognition of the shared responsibility to achieve better links, with both the Scottish Tourist Board and the Scotch Whisky industry having a role to play in identifying ways of promoting Scotch Whisky in a more sustained manner. This will provide niche market opportunities for all those involved in the Scotch Whisky industry providing increased sales and job opportunities.

The other leading issues which are affecting the business environment of the Scotch Whisky are tax and excise duties, discrimination in overseas markets, the abolition of duty free, and more effective promotion. The establishment of the Scottish Parliament could have particularly strong effects for the industry, although most of the above issues do not come under the devolved powers. What is clear is that for this developing spirit cluster to be successful, more needs to be undertaken proactively, and with a full appreciation of the role of power in both achieving growth and in stifling enterprise and job creation.

In the context of clustering and partnership, it is notable that trades unions are absent from the food and drink sector (Figure 2). Yet this sector is held up as a model of

partnership, with the Scotch Whisky industry characterised by good industrial relations. In our survey, both management and unions spoke of the... 'mutual respect'....and 'mature attitudes'. The industry is associated with well paid jobs, a skilled workforce, with good conditions of work and training opportunities. The attitude prevalent in the industry is one of co-operation and partnership, typified by agreements such as '*Positive Partnership*' by United Distillers, now a part of the Diageo group. Similar agreements have been struck throughout the industry. The industry is at the forefront of human resources management with agreements over multi-skilling, team working and full union participation. With the ever present need to remain efficient and the increasing use of bench-marking, not just within the Scotch Whisky industry but with other first class, global companies there is the ever present threat of further rationalisation and job cuts.

However, with the potential of niche markets, greater expenditure on advertising both in the home and overseas markets, and the continual campaign to reduce discrimination against Scotch Whisky, there are opportunities not only to save but to create employment in the sector as a whole. Many of these changes have generated jointly developed company-trade union training strategies to address threatened job losses and potential diversification. Some have been plant or employer-specific initiatives, others have embraced wider constituencies. However, the power relations inherent in the Scottish Enterprise cluster, in the negotiations over the next generation of partnerships, and in the marginal position of the trades unions with respect to the current round of takeovers, mergers and strategic alliances, confirm the overwhelming strength of the dominant multinational enterprises.

As a dominant employer in many small, rural and fragile communities, the implications of the investment and production decisions of the industry can be profound. It could be argued that the Scottish Parliament, the trades unions and communities have some degree of power, at least in the short to medium term. Thus, to promote its case for an end to discrimination, etc. the Scotch Whisky industry requires the good industrial relations of the industry to be protected by an inclusive partnership between the companies, the trades unions, suppliers and communities. In similar veins, the industry needs to maintain and extend the good relationships with local communities by embracing and implementing the European policies of works councils and adopting an open approach to the need and forms of diversification. Training to exploit niche markets, diversification and technological change is necessary to improve the prospects for the industry and its workforce. Local enterprise companies, further education colleges and other agencies should be clear of their roles in promoting this critical sector, often in ways radically different from the past.

The strategic importance of this industry to the Scottish economy should not be underestimated, nor should the potential of growing it further, to the benefit of jobs, public finances and workers. But, to achieve the objectives in the cluster strategy, the government development agencies and the new Scottish Executive must take a more pro-active approach to redressing the imbalance in power relations within the industry.

References

- Coase R.(1937) The Nature of the Firm *Economica* November 386-210
Coase R (1991) The Nature of the Firm: Influence in Williamson O.E. and Winter S. G.(eds) The Nature of the Firm. Origins, Evolution, and Development. OUP

- Cowling K and Sugden R (1998) The Essence of the Modern Corporation: Markets, Strategic Decision-Making and the Theory of the Firm. *The Manchester School* Vol 66 1 Jan 59-86
- Danson M and Whittam G (1997) Networks, innovation and industrial districts: the case of Scotland. Paper presented at the ERSA conference Rome.
- Danson, M. and Whittam, G. (1998) Networks, innovation and industrial districts: the case of Scotland. In M. Steiner (ed) *From Agglomeration Economies to Innovative Clusters*. European Research in Regional Science, Pion: London.
- Danson M and Whittam (1999) Clustering, Innovations and Trust: the Essentials of a Clustering Strategy for Scotland. M Fischer, Suarez-Villa, Steiner (eds), Springer-Verlag, forthcoming.
- Danson M and Whittam G (1999a) The Scotch Whisky Industry - Current Performance and Future Prospects- Priorities for Improvement. University of Paisley
- DTI White Paper (1998) Our Competitive Future- Building the Knowledge Driven Economy
- Galbraith J.K. (1973) Power and the Useful Economist *American Economic Review* March, 1-11
- Mizrahi S (1998) Regional Cooperation and Innovative Industries: Game-theoretical Aspects and Policy Implications in Steiner M.(ed) *Clusters and Regional Specialisation*. Pion
- Putterman L. Kroszner R.S (1996) *The Economic Nature of the Firm*. Introduction. Cambridge.
- Steiner (1998) The Discreet Charm of Clusters: An Introduction. in Steiner M.(ed) *Clusters and Regional Specialisation*. Pion
- Tichy G (1998) Clusters: Less Dispensable and More Risky than Ever in Steiner M.(ed) *Clusters and Regional Specialisation*. Pion

Additional references

- Fraser of Allander Institute reports conducted for Allied Distillers (1996) (which was only available in draft summary) and for Scottish Enterprise and the Scottish Office (1996).
- Scottish Council Development and Industry survey.
- B Townsend, *Scotch Missed*, NWP, 1997.
- Datamonitor market analysis report on UK wines and spirits, 5/10/98.
- The Local Economic Impact of Allied Distillers Ltd.* (1996) Fraser of Allander Institute for Allied Distillers Ltd, referenced in 'The Scotch Whisky Industry', *Scottish Economic Bulletin* 55, September 1997, 17-27.
- Survey of Highlands & Islands Manufacturing and Exports 1996-97*, SCDI, 1998.
- D Brewster (*Business Economics*, The Dryden Press, 1997
- Porter M.E. (1990) *The Competitive Advantage of Nations*

FIGURES 1-4, please refer to authors.