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Governance, Value Chain Positioning and Firms' Heterogeneous Performance: The Case of Tuscany

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Abstract

The recent trade literature has shown how incomplete contracts can shape firms' boundary and the decision of whether to outsource or integrate vertically. Related evidence and conceptualizations from the business literature show that buyer-supplier relations in global value chains can take several governance structures, depending on the degree of vertical coordination and power relations between firms. Building upon these two non-competing strands of the literature, we construct a taxonomy of firms that considers their positioning (upstream or downstream), their belonging to domestic or global value chains and the type of relations they entertain with other firms. We apply our taxonomy to the 2011 census of firms operating in Tuscany. We first describe regional characteristics and then study how positioning and governance affect firms' decisions and performance. Our results show that firms in hierarchical value chains are more productive than those in market chains; that firms involved in Global Value Chains outperform the one outside or in Domestic Value Chains, and, finally, that firms which are both suppliers and buyers in a value chain have the highest productivity premium.

JEL codes: F14, F23.

Keywords: Global value chains; Buyer-supplier relations; Heterogeneous firms; International trade, firms' performance.

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