

## Chapter 24

# Innovation and Value Creation in Emerging African Commercial Agriculture: Evidence from the Ugandan Flower Export Sector

**Timothy Esemu**

*Makerere University, Uganda*

**Eric Wood**

*University of Cape Town, South Africa*

### **ABSTRACT**

*This empirical study investigates the extent to which Ugandan flower exporters are creating value and increasing their profitability through innovation activity. It uses a survey questionnaire and semi-structured in-depth interviews of managers. Primary and secondary data is used to develop financial models to estimate profitability from different combinations of innovations. Evidence shows that lines of business that are associated with the highest profitability in one period change over time, thus confirming the need for and potential benefits to be gained from innovation. It also shows that while most innovations were yielding improved profitability, others recorded lower profitability than existing business lines, an indication of value destruction from such innovations. It further demonstrates that limited progress has been made in penetrating premium export market segments. Additional results show that there is significant disparity in the ability of exporters to create value from innovation activity. The results of this study offer scope for future application of the methodology developed, provide insights on what managers should do in order to obtain the best possible financial returns from innovation activity as well as areas in which public research bodies can help exporters to reduce risks and enhance returns to innovation activity.*

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## **INTRODUCTION**

The empirical study presented in this chapter aims at analyzing the role of innovation management in firm value creation and financial sustainability in the Ugandan flower export sector. It is based on the premise that although there is a growing body of literature on innovation performance in agro-commodity export sectors in sub-Saharan Africa - SSA (e.g. Dolan & Humphrey, 2000; Kjollerstrom & Dallto, 2007; Trienekens & Willems, 2007), these are largely prescriptive and mainly limited to the assessment of innovation outcomes at the aggregate level. In particular, these studies concentrate on analysis of the general outcomes of innovation with a focus on improvement in export sales volume, revenue or pricing (e.g. Kiggundu, 2004a; Ponte, 2005; Wood & Kaplan, 2005; Juma, 2010). In spite of being useful in providing evidence on innovation in African agriculture, these studies neglect the analysis of innovation project selection or upgrading strategies and their implications for financial value creation and profitability.

A focus on the profitability impact of innovation is useful because it directly relates to future sustainability considering the uncertainties and risks associated with innovations. The main purpose of this study is therefore to provide empirical evidence on how innovation adoption can be used to develop a nascent export oriented commercial agriculture in a poor country context, challenges faced and the implications it raises for public policy and management practice. The remainder of this chapter is structured thus. The next section presents the background to the study. This is followed by a brief review of the innovation management literature. This is then followed by an account of the research method used, a presentation and discussion of results, the implications of the study and finally the conclusions.

## **BACKGROUND TO THE STUDY**

The Ugandan flower export sector is an example of emergent and rapidly growing export oriented commercial agriculture in sub-Saharan Africa. The sector has immense potential for contributing to economic growth and development in Uganda as demonstrated by its rapid growth in export volume and revenue over the period 1995-2000 amidst many challenges (Dijkstra, 2001). It had been identified by the government of Uganda as one of the strategic non-traditional export agriculture sectors to be fast tracked for development due to its potential for employment and income generation as well as foreign exchange earnings. However, this sector went through a disastrous period in the 1990s with certain flower varieties that turned out to be loss making (Asea & Kaija, 2000; Dijkstra, 2001). The episodes of difficulties in this sector resulted in some companies in the flower sector going out of business after making financial losses (ADC/IDEA, 1998b; Asea & Kaija, 2000). In this regard, a combination of rapid growth in the Ugandan flower export sector, the turbulence that resulted in financial losses as well as some failures and the high intensity of innovation activity adopted by the exporters in order to survive makes it suitable for undertaking the analysis of the value creation potential and financial sustainability impact of innovation activity.

The analysis of the flower export sector in Uganda should therefore provide insights on whether or not innovation contributes to firm value creation. This forms an important contribution to our understanding of the development and sustainability of commercial agriculture in poor SSA countries. It particularly builds on the findings of previous studies of innovation in export agriculture in SSA which largely concentrated on the use of export revenue growth and price as measures of innovation performance (Gibbon,

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