

**GLOBAL VALUE CHAIN LINKAGES OF  
MANUFACTURING EXPORT FIRMS  
A STUDY OF THE KANNUR HOME TEXTILE  
INDUSTRY**

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*By*

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## *Certificate*

This is to certify that the research work for the thesis entitled '**Global Value Chain Linkages of Manufacturing Export Firms: A Study of The Kannur Home Textile Industry**' by Ms. Anoo Anna Anthony, full time research scholar, under my supervision and guidance at the School of Management Studies, CUSAT, is adequate and complete for the requirement of the Ph.D thesis.

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## **Declaration**

I, Anoo Anna Anthony hereby declare that the thesis entitled ‘Global Value Chain Linkages of Manufacturing Export Firms: A Study of the Kannur Home Textile Industry’ is a bonafide record of research work done by me under the supervision of Dr. Mary Joseph. T. (Retired Professor and former Director), School of Management Studies, Cochin University of Science and Technology for the Ph.D Programme of the School of Management Studies, Cochin University of Science and Technology. I further declare that this work has not formed the basis for the award of any Degree, Diploma, Associate ship, Fellowship or any other titles for recognition.

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Date:

*Anoo Anna Anthony*

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The world economy has changed in significant ways during the past several decades. One of the areas where this change has been profound is in the area of international trade and industrial organization. The globalization of production and trade is especially significant, when one considers its effect on the growth and development of industrial capabilities in a number of developing countries, and how large transnational corporations are increasingly reducing direct ownership over non core functions such as generic services and volume based production (Sturgeon, 2008). Functional integration has been the result of this vertical fragmentation. Globalization, with its effects on the mobility of information, capital and talent affects the nature of work and business in the contemporary world economy.

The international debate today is directed towards how globalization, in its transformative influence affects firms and workers particularly in the developing economies. The result has been the significant growths of capability building by firms in developing countries who find themselves engaged through planned action or through gradual improvements in taking up more specialized or value

enhancing processes or activities. These firms engage in the provision of intermediate inputs or services used in or for final processes of the retail ready item. This has affected not only their fortunes but the industries they are entrenched in, and the regions where they have located their industries, causing a multiplier effect on the participants in those supply relationships, either intentionally or by chance.

## **1.1 Background of the Study**

The textile and apparel complex is one of the oldest and most global export industries in the world, which was traditionally used by countries entering the era of the industrial revolution to quick start their industrialization process through the benefits of ample work, employment opportunities, inelastic demand for clothing and easy entry into export oriented growth. India's textile industry is one of the economy's largest. India's textile industry is also significant in a global context, ranking second to China in the production of both cotton yarn and fabric and fifth in the production of synthetic fibers and yarns. Though it was a major predicted gainer from the end of the MFA, the recession in major buyer markets affected demand and led to intensive losses of jobs in 2008 and 2009 (Thoburn, 2010)

### **The SME Influence**

India's textile sector is characterized by mostly small-scale, nonintegrated spinning, weaving, cloth finishing, and apparel enterprises, many of which use outdated technology. Some, mostly larger firms operate in the 'organized' sector where firms must comply with numerous government labor and tax regulations. Most firms, however, operate in the small and medium enterprise size with smaller scales of production, commonly called the 'unorganized' sector where regulations are less stringent and more easily evaded. The unique structure of the Indian textile industry is due to the legacy of tax, labor, and other regulatory policies that have favored small-scale, labor intensive enterprises, while discriminating against larger scale, more capital intensive operations. The structure is also due to the historical orientation towards meeting the needs of India's predominantly low-income

domestic consumers, rather than the world market. Policy reforms, which began in the 1980s and continued into the 1990s, have led to significant gains in technical efficiency and international competitiveness, particularly in the spinning sector. However, broad scope remains for additional reforms that could enhance the efficiency and competitiveness of India's weaving, fabric finishing, and apparel sectors (Landes, MacDonald, Singh and Volrath, 2005). A strong and weak point of Indian textiles is that it is spread across the country, with pockets of concentration coming up in different areas according to raw material availability( Chandy, 2011).

### **The Kannur Home Textile Industry**

The export oriented home furnishing industry based at Kannur has a history that goes way back to 1844, when the first frame loom weaving factories were set up by the Basel missionaries of Germany. The first handloom factory was set up in 1852 in Kannur and in Calicut in 1859. This was later converted into a factory called The Commonwealth Trust. In the early 1950s the first exports from the region started. In the 1980s the home furnishing and upholstery products gained popularity and this continues even today. By 2004 exports touched Rs.265 crores of rupees and in 2008, Rs. 330 crores of rupees (Jayachandran, 2005). In the financial year 2009-10 it had fallen to Rs. 229 crores. This drastic drop was as a result of the recession and economic slump of that time, coupled with the combined effect of unprecedented increase in cotton yarn prices and currency value fluctuations (The Hindu, December, 2010). It was approved as a 'Town of Export Excellence' by the Central Ministry of Commerce in 2005 to recognize the contribution of smaller towns and regions that grew on their own strength to contribute to the national exports even without basic government infrastructure. Tirupur ,Ludhiana and Panipat were other textile clusters to be awarded this title.

### **1.2 Statement of the Problem**

Immiserising growth is defined as an outcome when overall economic activity increases, but the returns to this economic activity falls. This can happen when export prices fall faster than export volumes increase, Here, the firm may be

worse off even though economic activity is increased. This has happened to five countries exporting wooden furniture to the EU in the decade 1987-1996. When wages fall, as production increases, in reality workers do not gain. In Brazil's shoe exporting sector, between 1970 and 1980 average real wages were stagnant, and during the 1990s they fell by approximately 40 percent in real terms. It is seen that despite high economic integration, firms do not gain from globalization (Kaplinsky & Morris, 2001). Between 1997 and 2001, the UNCTAD combined price index of all commodities in US dollars fell by 53 per cent in real terms. That is, commodities lost more than half of their purchasing power in terms of manufactured goods: African commodity exporters would have had to double their export volumes to maintain their foreign exchange incomes at previous levels (UNECA, 2002). This pattern of exports growth-- increasing volume growth to sustain the same level of incomes--is characteristic of immiserising growth, a pattern whereby growing output can, in theory, lead to lower incomes and rising poverty. The inequality remains despite global integration and firms in developing countries like India may not be engaging in activities that truly benefit them, in the process of their integration with global supply chains.

The study attempts to examine the Kannur home textile value chain to understand whether immiserising growth is a threat in the long term. Have firms in the cluster gained from their association with global buyers over this extended period, and in what ways? Has high road growth been possible by this continued integration into the value chains of retailers and branded manufacturers for decades, or has there been a slow redundancy in the importance of their functions and benefits? An attempt is made to evaluate these aspects through the use of the 'value chain framework' suggested by Kaplinsky and Morris (2001) in their manual titled 'A Handbook for Value Chain Research'. This uses the constructs of Schumpeterian rents, governance and upgrading to finally evaluate the type of value chain relationship prevalent among the firms in the cluster and to examine how this affects their prospects for development in the long run.



### 1.3 Key Research Questions

- *What is the type of the value chain relationship that manufacturing export firms of home textiles have with their buyers?*
- *What are the capabilities within and between firms in the home textile global value chain that enable sustained competitiveness?*
- *How and what are the methods by which manufacturing exporters are controlled, directed or coordinated in the value chain, and how has it influenced their up gradation ?*
- *What are their preferred buyer segments and key product lines?*
- *What are the critical success factors of the industry?*
- *Do firms in the cluster gain or lose from linkages to global buyers?*

### 1.4 Objectives of the Study

- a) To examine the various sources of **Schumpeterian rents** which exist in the relationship of the manufacturing export firm with the value chain.
- b) To examine the **sources and effects of governance** which influence the relations between firms in the chain?
- c) To isolate the **sources and types of up gradation and** its effect on manufacturing firm prospects.
- d) To understand the **final buyer segments** and the **key success factors** required to perform in these segments.
- e) To attempt to contribute to the literature on value chain theory by **observing and classifying the type of value chain within the cluster.**

In the light of the exploratory nature of the study and the broad scope of the study the following propositions are put forward to be examined using a mixed

method research framework. A triangulation of results is attempted by using a sequential exploratory mixed method design with an initial strand of case study research of multiple case studies and a second part that involved a descriptive attitudinal survey research. The objective was to corroborate the evidence and to strengthen the findings by complementary results.

### **1.5 Propositions of the Study**

- a) **Firm, relational and resource based rents are significant to export firm in the cluster.**
- b) **Legislative governance is more significant to firms than judicial or executive governance.**
- c) **Product and process upgrading are carried out by export firms.**
- d) **KSFs have shifted from product based to process based factors.**
- e) **High value low volume retail buyers is the most important customer group.**
- f) **The typology of the value chain is quasi-hierarchical.**

### **1.6 Potential contributions of the study**

#### **At the national level**

The national textile policy aims towards promotion of artisanal and traditional populations through the use of cluster based promotional methods. This involves activities directed towards increasing competitiveness. This was by greater investments, higher standards of quality and by reacting faster to global developments. An export target of 50 billion dollars by 2010 had been targeted in the textiles and clothing industry in the budget of the Union Government in 2004-05. The post MFA era was a disappointment to the industry since diversification of production occurred and key markets like the USA, Canada had created production sharing arrangements with a number of developing countries in their vicinity and were benefiting from the buyback arrangements with these countries. India had a disadvantage of distance from these markets and inherent structural

weaknesses which have prevented the industry from reaching its true potential. Added to this has been the effect of the global recession which began in the latter half of 2007 leading to falling demand and loss of jobs across all sectors and particularly in the textile and apparel industry.

Policy makers should recognize that the measures provided to firms in the sector will bear fruit only if the linkages, with key markets are sustained. These linkages are through different players that take up the buying function like the importer wholesaler, the importer distributor, the branded retailer, or the mass marketer. Understanding the key success factors required to perform in these markets is necessary to direct policy related steps to provide these needs. The upgrading that firms need to take up, in the form of increased price competitiveness, technology improvements, providing valued benefits like adherence to socially relevant or ethical standards, increased importance to evolving product and process standards and firm specific standards offers Indian suppliers direct entry into valued and beneficial buyer driven chains. This can be directly taken up in policy measures at the central level, which need to be customized at the cluster or regional level, due to the vast diversity in small and medium enterprises in the country that have access to export markets. In a reservation biased industrial policy, where smaller companies are encouraged at the expense of bigger firms, drastic changes to reverse this will not happen overnight. Identifying methods to make the existing smaller players link with bigger producers or directly to export markets through providing specific benefits or capabilities or sources of rent, carrying out firm or technology upgrading, and increasing bargaining power of suppliers goes a long way towards ensuring high road growth.

#### **At the state level**

Despite having a history of exports that go back to the 1950s, and linkages with highly quality conscious European and British buyers since those times, a state level thrust on the export industry of home textiles has not been significant.

A significant body has been the exporter's association of the region, lobbying for national recognition, and infrastructure needs like textile parks, institutions like NIFT, and skill development courses. Their actions have been independent of or rarely in tandem with government based actions, but due to the region being a recognized handloom weaving cluster, the cooperatives and smaller handloom weaving establishments organized as quasi governmental establishments have received enormous support in the form of subsidies, rebate sales, workers insurance and wage support, write-off of bad debts and improving the competence of weavers by cluster development initiatives of the Handloom cluster development programme in the Integrated Handloom Development Scheme (IHDS). This kind of support and need specific investments has been absent in the initial years of export development of the private sector companies of the region. The study will suggest areas of acute weaknesses in the region, and where dissipation of capabilities is seen. How can a combined approach where the private enterprise association aims at developing or enhancing cluster strengths in combination with the government support mechanisms for smaller producers, benefit the region as a whole? The study will examine broad areas where the export linkages of the private sector enterprise have been used to enhance and develop the region as a whole, through filtering of orders to the other producers, using region specific skills and abilities, hand holding for smaller establishments and private- public partnerships for regional infrastructure and support industry development.

#### **At the firm level**

By examining the initial and present key success factors of firms, as well as their important product groups and key markets, it becomes clear what should be the practices that they should take up to enhance their offering and upgrade their abilities. This may be centered not only on specific firms but on the regional strengths or resource specific benefits, which firms, in toto, must work towards. The study examines which are the redundant practices that no longer benefit firms and in which areas further investment is called for to ensure high road growth.

## **1.7 Scope and limitations of the Study**

The literature on the involvement of developing countries in trade has focused on the effects of different aspects of globalization on firms, regions and countries. The study attempts to examine how an export based industry, locally embedded and originated on the basis of regional strengths has been inserted into the global trade framework. Though the unit of analysis is the manufacturing export firm in the region of Kannur, it represents the entire home textile export industry from the state of Kerala, as close to 90% of fabric exports in home furnishing material, textiles for upholstery and decoration and stitched or fused, and branded made ups are from the region. From a global perspective, how developing countries face newer trade restrictions and overcome non quota barriers by firm and region specific activities within a value chain framework is a major research area, which has already contributions from the Ludhiana woolen cluster (Tewari,1999 ) and the Tirupur cluster in India (Cawthorne, 1995). The study contributes to the value chain literature by examining the governance and upgrading as well as how firms benefit from linkages. India has a number of export oriented agglomerations or regions where firms have been serving export markets for many years. In many cases it is no longer the supply side policy actions that determine how they are able to penetrate new markets or expand existing market share. Based on this study it becomes possible to understand how the global value chain operates in these different industries to examine whether there is a danger of immiserisation of growth or low road growth.

### **Limitations of the study**

- a) The use of a holistic case study research requires cases or firms, in this case to be studied as a whole, considering the constructs of rent, governance and upgrading, as specified by the theoretical framework. It does not study each firm, department wise, or look at their operations in the form of a sectoral or industry study.

- b) Though domestic sales may occur, for unsold items, rejects or defective goods or off- season excess stock , how these items enter the domestic value chain, and are distributed in the local market has not been explored. Export linkages are the subject of study.
- c) In the case study research, access to individual item or product category based change in value from one level to the next was impossible to attain because of the large variety of products within and across categories. For each case an approximate change in value at each level, was stated by the firm's respondent as representative of the firm.
- d) A better representation of the value chain linkages of the home textiles industry in the country could have been achieved had the study compared results or activities across two or three home textiles agglomerations like Karur and Panipat. Due to the constraints of time and money as well as the extended data collection process of case study research, this could not be done.

## 1.8 Chapterisation

The study is divided into two parts. The Part 1 deals with the introduction, review of literature and research design, while the second part consists of the analysis of data, generation of Meta inferences, discussion of the propositions and the findings and recommendations.

Chapter one was the brief introduction to the study explaining the background of the study and statement of the problem. It provides an introduction to the research problem and lists the objectives of the study. The propositions to be examined were stated.

Chapter two examines the changing geography of international trade, and examines in detail about changing production patterns, shifting governing patterns and the explanations put forward by literature. It examines the approaches to the

global trade phenomenon, ending with a review of the global commodity chain approach, and its offshoot, value chain analysis. In this connection a general examination of the Indian textile & clothing sector, and the historical background of the home furnishing industry of Kerala localized in Kannur is described.

Chapter three is the review of the literature which is examined under five heads. The world trading scenario in textiles and apparel is examined first. The commodity chain and value chain literature is viewed in the light of its effects on developing countries. The emerging trends in trade is viewed to find out what are the current scenario. The Multifiber agreement is summarized and the the Indian textiles and clothing industry's historical background, reforms and policy measures and initiatives in the post MFA era are examined next. The predominance of the small scale and medium scale industry in the sector is expanded upon. The role of clusters in value chains is examined with the help of a few studies.

Chapter four describes the theoretical framework of the study. The value chain as a tool for analysis, with the descriptions of the key constructs of rents, governance and upgrading, is carried out next. The need for examining the critical success factors for the industry and use of radar charts is stated.

Chapter five specifies the design of the study, highlighting the benefits of a mixed method research strategy, and the need for a sequential design in this study. The two strands of the study, case study research and the survey research are laid out describing the rationale and the criteria for selection of cases and the parts of the survey design. In designing the case study the research paradigms and philosophical orientation of the qualitative data analysis process used to analyze the case study, is discussed.

Chapter six starts the data analysis part of the study with the analysis of strand 1: the Case Study Research. This follows the qualitative data analysis process of developing transcripts of interviews, coding of transcripts and

developing of researcher memos, to aid analysis. The identification of apriori and emergent codes is then followed by individual case analysis of the three case study firms. Inferences are drawn from individual case analysis. Cross case analysis occurs in the next section to cross-examine the evidence and identify similarities and differences and analyze the sources of rent, the sources and effects of governance, and the analysis of the types of upgrading. The analyses of the critical success factors specified by firms, and aspects of the buying function like key buyer segments, key product categories and destination of sales is then done.

Chapter seven is the analysis of strand II- the Descriptive Attitudinal Survey. Classifications of firms, the comparisons of important categories, and factors affecting export development are described. The product and process standards and the kinds of upgrading activities undertaken are analyzed.

Chapter eight develops the Meta-inferences- a process of combining the evidence and the findings from the case study research and the survey research. The evidence is integrated and the propositions are discussed in the light of this analysis.

Chapter nine puts forward the findings, recommendations and conclusion. What are the findings from the study and the areas in which action is required. The need to improve firm outcomes is discussed through the recommendations of the study. The study concludes by bringing out the areas for future research.

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## CHANGES IN THE ECONOMIC GEOGRAPHY OF INTERNATIONAL TRADE

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	<b>2.4</b>	<b>India's Textile and Apparel Trade</b>
	<b>2.5</b>	<b>Background of the Study</b>
	<b>2.6</b>	<b>Initial Export initiatives</b>

### 2.1 Changes in production patterns

One of the most important features of the modern economy is the emergence of many different kinds of low-technology, labor-intensive industries as engines of growth, development, and trade, both in developed and developing countries, where wages were significantly different. Increased economic activity was seen in regions other than the northern hemisphere. This was manifested through one of the most direct and dramatic indices of the increasing economic integration marking the post war world - foreign trade. In 1960, total world merchandise exports represented just 5.8% of world GDP and merchandise imports represented 6.1%. By 1993 these figures were 15.8% and 15.4% respectively- in absolute terms a six-fold real increase in growth in world merchandise trade between 1960 and the early 1990s (Scott, 1998).

Messner (2004) described that earlier the global economy could be viewed as the sum total of national economies, some of which occupied center stage and others peripheries, but the new world economy is marked by competition and interaction between local clusters (Nadvi /Schmitz 1999, global cities (Sassen 2000),

global city regions (Scott 2001) and global value chains (Gereffi, 1999) that are no longer territorial in organization. Politically separated and geographical boundaries as territorial limits no longer form external borders for the flow/transfer of goods, money, technology and knowledge.

Hassler (2005) opines that the exclusion of production as a core business obviates the need for economies of scale to achieve profitability and instead allows a focus on economies of scope as a business strategy. This enables quick responses to market changes and the service of different market spaces to their own requirements with a unique branded product. Therefore, core profits are realized in design, retailing and marketing, based on property rights such as brand-name owners rather than by manufacturers.

Sturgeon (2008) speaks of the global economy having entered a new phase of deeper, more immediate integration that is exposing national and local economies to tremors of economic change as never before. These tremors can either be immensely beneficial to domestic firms and industries lifting them up, they may also get flattened by the relentless onslaught of competition or perhaps even worse, economically driven opportunities of global trade may bypass them entirely.

According to him the present trends of a globalized production system is best described by the geographer Peter Dicken. Dicken (1994) argues that it is the 'functional integration' of internationally dispersed activities that differentiates the current era of 'globalization' from an earlier era of 'internationalization,' which was characterized by the simple geographic spread of economic activities across national boundaries. This need for functional integration has put developing country firms face to face with the reality of tighter coordination and conditions to be fulfilled within an expanding set of multinational firms (Zanfei, 2000) which are themselves at the mercy of rampant customers to whom loyalty and brand equity are strangers.

Customers are constantly looking for variety and customization in ever-increasing degrees. This has led to the rise of firms in the West- retailers and branded merchandisers with little or no internal production (Gereffi, 1994; Feenstra and Hamilton, 2006) and de-verticalizing “manufacturers” -that have shed internal capacity and have come to rely on an emergent set of global and East Asian regional contract manufacturers for production (Borras, Dieter & Stephen, 2000; Sturgeon, 2002 cited in Sturgeon, 2008)

A key feature of globalization is that its economic and organizational glue is increasingly associated with complex networks of suppliers who produce in globally dispersed locations in accordance with the demands of lead firms. The vast majority of manufactured commodities used by households and workplaces in the world over from clothing to electronic products to furniture to automobiles and increasing proportions of the fruit, vegetable, meat and fish consumed in the ‘global North’ are produced and delivered by and through these networks (Henderson, 2005).

Examining the changing structure of factory production, McCormick & Schmitz (2002) describes how earlier manufacturing was focused on raw materials entering the factory, and finished products left the factory after a whole range of operations. Design, production, marketing, inventory and finishing were done in large factory sites or within close proximity to each other. This was true in the 1950s and 1960s, even after the emergence of the MNC. In the 1970s a strong focus towards rationalizing operations, caused firms to restructure their operations. Labour intensive activities got shifted to LDCs and developing countries. In the 1980s and 1990s, further breaking up of the production process occurred, with advances in transport and communication.

Scott (1998) is of the opinion that, post the Second World War, when large-scale mass production moved decisively to the leading edges of economic expansion, sectors like these were often seen as being rather archaic hangovers from an earlier era of capitalism. Few, if any, analysts in any part of the world

were prepared to advocate the virtues of these sectors as instruments of positive economic change, and in less-developed countries where growth-pole and import-substitution policies reigned in one form or another, they were for the most part simply ignored.

Despite this, it is a fact that in the globalizing economy of today, many low value, and commodity based sectors are achieving what would at an earlier stage have been considered to be surprising levels of performance in terms of job growth and foreign earnings capacity (Scott, 1998). Even if it is true that they are often marked by low wages, unskilled work, and sweatshop conditions of employment, they have seen growth in vastly different social and economic backgrounds of country and region and have begun to wield their influence in fashion-oriented segments, where rigidity of timing and delivery is higher.

### **2.1.1 Factors fueling this increase**

Attributing the increase in trade to any single reason is impractical, given that many factors were in place to bring about this increase. This economic effervescence in the international sphere has been facilitated by continuous lowering of tariff barriers and institutional impediments to trade as well as by dramatic improvements in transportation and communication technology.

Significant among these was the increased transport possibilities and speeds with which people and goods could be moved across countries. Large scale container transport by land and sea, inexpensive air transport, electronic communications etc has rendered velocity of circulation of goods, people and services and information increasing exponentially, while the cost of transacting has fallen drastically (Scott, 1998). Enabling information flows back and forth through electronic means, by itself has changed the structure of the supply chains.

Most often these have involved producers in developing countries and lesser developed economies ensconced in supply relationships with buyers in final consumer markets, where they are sold. These chains have become shorter,

decreasing stock turnover time and inventory lead times at the point of the buyer. Aiding this is the role of and spread of international monetary transactions. These have been spiraling uncontrollably upwards in recent years. Enormous amount of liquid capital now move from country to country in a fraction of a second in response to subtle global shifts in economic trends in different countries.

Sturgeon (2008b) describes that globalization of production has happened because of two recent developments that are enabling even greater functional integration in the global economy:

- a) Rapidly increasing industrial capabilities in developing countries, especially in China and India.
- b) New computer-mediated approaches to real-time integration of distant activities. This has enabled distant firms to become constant communicators and associates due to the plethora of devices directed towards harmonizing differences, in distances, business methods, transactions and commerce.

Sturgeon (2008b) describes the above two factors as facilitating international trade in many intermediate goods and services that have not previously been sent across borders. As a result, opportunities have opened up for firms to engage with the global economy - as buyers, suppliers, sellers, distributors, contractors, and service providers - in ways that were impossible even a few years ago.

These changes have created new challenges and risks, as well as opportunities. Because activities are being integrated in the global economy at a very granular level, pressure has increased for firms and individual workers that may have been insulated from global competition in the past. The result is accelerating change and an increased sense of economic insecurity, even among the “winners” in the global economy (Sturgeon, 2008a, 2008b).

### 2.1.2 Shifting Governance Structures

The world economy of the past was once viewed as the sum total of national economies and conceived in categories of periphery and centre. But now distinctions of territory are losing relevance. The economy is in part breaking its links with territorially and spatially constituted entities and creating agglomeration spaces of its own. External borders of national governments have ceased to constitute crucial boundaries to the transfer of money, goods, technology and knowledge (Messner, 2004). As these borders constantly erode, different governance measures are being put into place to deal with this mounting problem.

According to him classical international organizations like the International Stability Forum, other globally operating firms organizing transactional production and trade networks, international NGOs negotiating with MNCs over social and ecological standards and multi-member organizations are growing in significance.

A complex and largely uncoordinated structure of international regimes in the form of conventions and tacit agreements or special purpose regulatory bodies and intergovernmental commissions exist to exert some control over the multiplicity of organizations having contradicting goals and outcomes. More prominent among them have been the G-7 meetings, the World Bank, the FAO, ILO, IMF, OECD, UNCTAD and the WTO and many other smaller or regional players – covering a wide gamut of interests and activities like international health and welfare, gender issues, the environment, economic development, etc (Scott, 1998). Despite their civil status, they often play important roles in governance issues of global scale.

As the geography of trade changes, the world's governance patterns are likewise in the midst of a process of change. How do global governance mechanisms determine local development? Do local actors have the autonomy and resources to deal with the global economy or are they passive adapters to global

conditions? This remains a pressing issue with India, which is an important sourcing hub for many multinational corporations, in varied industries.

### **2.1.3 Explanations for changing trade patterns**

Some of the earliest views are centered on the comparative advantage of firms- which sought to explain trade between nations as a result of differences in factors of production. The theory of comparative advantage is used to describe outcomes of this model, complemented by Hecksler and Ohlins's factor-proportions extension which is based on the premise that gains accrue from specialization driven economies of scale.

Since the 1950s there have been several notable efforts to explain these sorts of variation among regions and their expression in the geography of development and trade. The roots of the core- periphery model go back to the writings of Myrdal and Hirschman in the late 1950s. These theorists tried to explain stark within- country regional differences pronounced in North America and Western Europe. The explanations characterized by the use of 'backwash' or polarisation which is described as a tendency for major industrial regions to grow by their own ability to draw in people and resources from distant locations and 'spread' or trickle-down, signifying the countervailing flow of growth effects from more developed to less developed regions via increased spending in core regions on the products of the periphery and the governmental efforts to raise incomes and opportunity levels in that periphery (Scott,1998).

In the 1970s, Amin and Frank linked the core-periphery model with theories of colonial and neocolonial exploitation at the world scale. In 1972 it was argued that the mechanisms behind unequal development- was found in the logic of international trade and that third world countries were essentially subsidizing the first world whenever the low wage, labour intensive products of the former were exchanged for the high wage capital intensive products of the latter (Scott,1998).

One of the earliest approaches guiding economic placement of industry was the neo classical industrial location theory that viewed location choices as a function of the cost of inputs, transportation and other transaction costs (the cost of doing business across geographical space, and maintaining relationships between buyers and sellers (Williamson 1971, 1981 cited in Weiller, 2003).

Once production becomes separated into different geographic spaces the organisation of this production becomes achievable by the explanation of transaction cost economics. (Williamson, 1975 cited in Gereffi, Humphrey & Sturgeon, 2005) The greater the asset specificity the more the transaction costs. Companies try to reduce this by outsourcing standardized products, to reduce coordination costs: and can be made by a variety of suppliers and bought by a variety of customers (Gereffi, et al, 2005).

A group of German researchers at the beginning of the 1970s suggested the theory of a New International Division of Labour (NIDL) with more economically advanced countries concentrating on the high end administrative, research and productive activities in the skilled labour economies of north America, Western Europe and Japan while the routine assembly functions were allocated to the low wage countries particularly Asia and Latin America (Scott, 1998). The New International Division of Labour was a labour process theory that has been a useful tool for understanding configuration of global garment production (Froebel, Heinrichs & Kreye, 1980 cited in Weiller, 2003) It emphasizes factor price differences and exploitation of national inequalities as they vertically disintegrate production and relocate labour intensive tasks to low wage sites. It is simultaneously an explanation of the de-industrialization of old industrial regions and an explanation of the industrialization of newly industrialized economies of South Asia (NIEs). It however oversimplifies complexities of industrial location in garment industries with its preoccupation with labour cost control and productivity (Weiller, 2003). This was particularly observable in the case of large, fordist style multinationals employing huge



number of assembly workers in routine low grade jobs, with branch plants being pushed out into the world periphery by cost competition.

Penrose (1959) has furthered the resource view of the firm. According to him, how and why firms can capture value depend on the generation and retention of competencies that are difficult to replicate- if an input (an important one) is infrequently required it will likely be acquired externally-it is about scale economies. It is seen that literature on firm capabilities and learning centers around the time and effort of achieving some competencies which may be prohibitive, time consuming and difficult. The firm may be better off concentrating on their areas of competence and rely on complimentary competencies of other firms.

Gereffi et al (2005) has mentioned the concept of fragmentation put forward by Arndt and Kierzkowski (2001)) to describe the physical separation of different parts of a production process. Fragmentation has led to the development of cross border production which can be within or between firms. Feenstra (1998) in Gereffi et al (2005) goes further to connect the integration of trade with the disintegration of production. Companies prefer to outsource and increasing share of their non-core marketing and service activities.

The Global Value Chain approach has its roots in world systems theory and dependency theory (see Wallerstein, 1974) – and was promoted ‘to develop a unified theoretical framework which can identify appropriate production and marketing strategies and key points for upgrading firms, within particular types of commodity chains in order to change existing power relations within the chain’ (DFID,2004). Gereffi (1994) linked Global Commodity Chain (GCC) analysis explicitly to power relations, for which he used the term global chain governance and defined this as ‘the authority and power relationship that determine how financial, material and human resources are allocated and flow within the chain’ (Gereffi,1994: 97 cited in Weiller, 2003).

The Global Production Networks (GPN) model focuses on the nature of the relationships within networks of firms. These may be not only market based or hierarchal transactions between and within these firms, or indeed to trust based reciprocations between senior managers (as in Chinese business networks, but also to those between firms and national governments, trade unions, NGOs etc and where relevant, international regulatory agencies have a role (Henderson, Dicken, Hess, Coe & Yeung, 2002).

Attention is focused not only on the nature of input output linkages but where and under what circumstance value is generated and captured. The GPN framework throws analytic and policy attention on the circumstances under which local firms absorbed into the GPNs of foreign companies or lead companies might be upgradable in terms of process, product or value generation and thus contribute more effectively to a country's economic, development, prosperity and prospects for reducing poverty (Henderson et al, 2002).

The use of transaction costs to explain cross border organizational flows and coordination mechanisms has been offset by the work of network theorists- (Jarillo, 1988, Lorenz, 1988, Powell 1990, Thorelli, 1986 cited in Gereffi et al, 2005), who argued that trust, reputation and mutual dependence dampen opportunistic behaviour and enable even more complex inter firm divisions of labour and interdependence, that goes beyond just monetary benefits or outcomes. Granovetter's (1985) contribution to economic geography has focused on the social relationships that may arise or are hinged on the close interactions of actors through "dense networks". Granovetter's (1985) seminal work on embeddedness is focused on the social structure or economic activity and outcomes (Granovetter, 2005). It is seen that internationalization of networks is an important characteristic of contemporary capitalism (Bair, 2008). Several frameworks exist to analyse global economic organization- among them embedded networks and value chain constructs that emphasize the connectedness of actors and activities across space. The discussion on network paradigms has varied from what they are defined as

and what they are understood to do. Scholarship focuses on the speed of technology transfers through networks or as structured flows of information, capital goods, etc (Bair, 2008). There is also a scholarly emphasis on place bound nature of networks – embedded as they are in particular geographic, political or institutional contexts.

The concept of ‘business and social networks’ has appeared in recent literature on international trade under the guise of ‘coalitions’ (Greof 1989, 1993) ‘immigrant links’ of Gould (1994), Head and Ries (1998) and the ‘Keiretsu’ studied by Fung (1991)- these networks described cover both domestic and international focus. Rauch (1999) is concerned with the role of networks in transmission of information regarding business opportunities. He distinguishes trade between homogenous and differentiated commodities. He believes that network formation and maintenance require personal contact and past colonial relationships. The social embeddedness enables trust to happen and this leads to business relationships.

A review of the frameworks seems necessary to observe the factors which have been highlighted as most important to the internationalization phenomenon, and to understand how the importance of these factors have evolved according to the emphasis given to them by scholarship. A cursory observation would reveal that these factors that have been given emphasis move from comparative advantage of factors to transaction costs of these factors, to location theory, international division of labour to achieve scale, fragmentation to achieve efficiency and the importance of social relationships and ‘embeddedness’.

Gereffi’s (1999) Global Commodity Chain (GCC) approach is especially relevant to the study as it view international trade as being governed by ‘lead firms’ in developed countries, which exert a definite influence on the producers in (usually) developing countries. Global Value Chain Analysis (GVC) has evolved from the GCC approach, when it became important to include product groups or

categories that were not ‘commodities’ in the true sense of the word. As this is particularly important for our purpose- it will be elaborated upon.

## **2.2 Theorizations about the Changing Geography of Trade**

Sturgeon (2008) states that the multiplicity of explanations regarding the nature of trade flows, the changing geography, and the regionalization of trade despite differences in the economic backgrounds of the countries linked to global trade, has led to policymakers responding to the pressures of global integration, desperate for conceptual frameworks and theoretical constructs that can help to guide their work, which often includes making difficult trade-offs in the context of extremely complex and rapidly changing situations.

The commonly cited intergovernmentalist view was built on the so-called “Washington Consensus,” the view that countries simply need to get their macroeconomic house in order and be open to international trade and investment to advance in the global economy. This has failed to provide guidance to policy-makers and non-governmental activists dealing with the concerns of workers, communities, and industries that are in the midst of wrenching change or which remain completely severed from the global economy. More so now than before is the need for theoretically rooted yet empirically justifiable means of explanation, that are characterized by simplicity, easy applicability in the face of variety, and resonance with real world situations (Sturgeon, 2008).

As the geography of global trade becomes increasingly convoluted, it becomes important to use specific methods to examine these relationships that take into account the cross national segmentation and separation of all economic processes and actors surrounding the production and consumption of a specific product. Hassler (2004) is of the opinion that this need for explanations, and understanding has led to the evolution of a number of approaches to international production. These traditions are centered on the theorization of networks or chains that link these different firms, countries and economic entities. The explanations vary from

- a) The use of the business linkages within firms and countries explained by Porter's management approaches (Porter, 1985, 1990a, b).
- b) Economic geography as the production chain or *filiere* (Walker 1988, Sayer and Walker 1992, Dicken 1994, 2003).
- c) Comparative Sociology as the global commodity chain (Hopkins and Wallerstein, 1986, 1994; Gereffi & Korzeniewicz, 1994, Gereffi 1994, 1999),

### **2.2.1 Porter's management approaches**

Porter (1990 a, b) has described the value chain in terms as upstream and downstream activities, which are concerned with raw material and component supply. The primary activities of the firm may be with actual production of goods and downstream activities are supportive activities used for conduct of sales to the final buyer. These are with intermediaries, transport companies and customer sales or support. The approach splits up the functions of organizations into core activities and support activities, so as to understand where additional value can be added, to make the entire process better.

### **2.2.2 Filiere Approach**

Raikes, Jensen & Ponte (2000) state that the *filière* approach was influenced by studies of US agriculture of the 1950s and 1960s. These studies sought to go beyond the analysis of farm level production in the recognition that increasing shares of value added was created by processors of these commodities or farm goods and distributors. The French *filière* approach is a loosely-knit set of studies with the common characteristic that they use the *filière* (or chain) of activities and exchanges, as a tool and to delimit the scope of their analysis. The approach is thus less a theory than a 'meso-level' field of analysis. It is also one seen by its practitioners as a neutral, practical tool of analysis for use in 'down-to-earth' applied research.

The French *filière* approach was started by studying contract farming and vertical integration in French agriculture in the 1960s. It was soon applied to the

analysis of developing country agriculture, where it fitted well to the requirements of French (post)colonial policy. During and since colonial times, French agricultural policy for its dependencies focused on developing selected export commodities like rubber, cotton, coffee and cocoa as huge plantations in its different colonies. This required a commodity- focused analysis for which the *filière* approach was well-suited. *Filière* studies dealt initially with local production systems and consumption, while areas such as international trade and processing were largely overlooked until the 1980s. Studies of trade were seen as largely superfluous since these areas were controlled by state institutions which undertook all transport and marketing of commodities at prices set by the central administration. *Filière* analysts have borrowed from different theories and methodologies, including systems analysis, industrial organisation, institutional economics (old and new), management science and Marxist ideologies ( Raikes et al, 2000).

### **2.2.3 The Global Commodity Chain (GCC) Approach**

Hassler (2004) opines that it is the debate on global commodity chains (GCCs) that has produced a comprehensive contribution to this conceptual development of frameworks to theorize international trade.

The starting point of GCC analysis is to focus on the dynamics of contemporary changes in the global industries and their corporate strategies. It aims to link structural changes at the global, macroeconomic level with contemporary firm-specific, microeconomic organizations of production and distribution (Gereffi 1994, p. 95) and goes beyond the sole examination of the spatial extension of the commodity flow (Hassler, 2004).

According to him the importance of individual countries and the systems of localization within countries, firms and households is an important aspect of the GCC Approach. When the commodity chain geographically ‘touches down ‘in a local context’, what are the effects on households and firms within (Appelbaum & Gereffi 1994; Leslie & Reimer 1999 cited in Hassler, 2005)?

A particular point of attention in commodity chain literature has been to the way in which production and trade networks are controlled or specified by parties, firms or organizations, which may either be part of these chains or operate external to it. The term governance has been identified as the ‘authority and power relationships between firms that determines how financial, material, and human resources are allocated and flow within a chain’ (Gereffi, 1995, p. 96).

#### **2.2.4 Types of Global Commodity Chains**

An offshoot of the effects of governance was the demarcation of chains or networks as driven or governed by end-of-chain intermediaries like retailers and brand-owners or by industrial capital of producers (Gereffi 1994, 1999). Therefore, a dual distinction of buyer- and producer-driven commodity chains evolved. Buyer-driven commodity chains have been identified as trade-based horizontal networks which are coordinated by retailers, trading houses and brand-name companies (Gereffi, 1999).

The GCC concept was first developed by Hopkins and Wallerstein (1977, 1986) who highlighted the power of the state in shaping global production systems, exercised in large part in the form of tariffs and local content rules effected at the point where goods crossed borders (Sturgeon, 2008)

#### **2.2.5 The role of governance in GCCs**

It was Gereffi (1994) who revived the GCC concept by refocusing it on the strategies and actions of firms, in part because of the restricted ability of states to set tariffs and local content rules in the context of trade liberalization. He recognized that countries openness to trade does not in itself create industrial capabilities. Liberalization has enabled the growth of international trade, but without the push from advanced-economy firms seeking to tap capabilities and markets in developing countries, the cross-border flows of goods and services would surely be more modest, in terms of both total volume and technological content, than they are today. Because firms from advanced economies have done so much to create capabilities in

developing countries, they continue to control and guide many of the key industrial resources in the global economy, even those they do not own.

Henderson (2005) stated that although the analysis of the links between globalization, economic development and poverty have largely utilized macro level data, the impacts of globalization ‘on the ground’ – with the resultant asymmetries for industries, firms, workers and communities, are sufficiently attended to meso (industries, and sectors, or ‘branches’) and micro (firms, workers and households) is required to identify policy responses appropriate to the particular country, sector or industry.

### **2.2.6 The GPN Approach**

GPN Analysis primarily promoted by Henderson et al (2002), focuses more on relationships within networks. This may encompass not only market or hierarchical transactions between firms but also trust based reciprocations (see Redding 1990, Gomez & Hsiao 2000 cited in Henderson et al., 2002) and interactions between governments, NGOs and trade Unions when relevant.

It focuses on understanding whether link of developing countries to these networks lead to upgrading into higher value added areas (thus improving competitive advantage with the skill enhancements knowledge transfers associated with this. It promotes what the ILO refers to as “sustainable development through decent work” (Palpacuer and Parisotto 2003:115)

### **2.3 Evolution of the GCC Approach**

Further studies by Sturgeon et al (2005) and others began to focus on an evolved understanding of the GCC Approach. The buyer- and producer-driven GCC typology were based on a static, empirically situated view of technology and barriers to entry, but both are dynamic because of technological change and firm- and industry-level learning (Henderson et al, 2002; Ponte and Gibbon, 2005). Two other aspects that came through was that there was clear shift away from the vertically integrated, producer-driven variant in a range of industries, and that the



buyer-driven type could not characterize all of the network types being observed in the field.

It is during this phase of evolving terminology that the term “commodity” got replaced with the word “value” because of popular connotations of the word “commodity” with undifferentiated products, especially primary products such as crude oil and bulk agricultural goods, and because the term “value” captured both the concept of “value added,” which fit well with the chain metaphor and focused attention on the main source of economic development: the application of human effort, often amplified by machines, to generate returns on invested capital (Sturgeon, 2008).

### **2.3.1 Emergence of the Global Value Chain (GVC) Approach**

GVCs are “sets of inter-firm networks which connect manufacturers, suppliers and sub-contractors in global industries, to each other” (Bair, 2005 p: 156). GVCs are characterized by socially defined and shifting boundaries, different degrees of monopolization, variations in geographical extensions, different property arrangements and different modes of labour control (Fold and Larsen, 2008). As a development-oriented tool, GVC analysis largely deals with examining “the diversity of insertion of developing countries in international trade and seeks to identify the opportunities they offer” (Daviron and Ponte 2005 cited in Werth, 2008)

### **2.3.2 Effects of the GVC approach on developing country firms**

#### **a) *Growing Inequality of Trade***

Raphael Kaplinsky of the Institute of Development Studies (IDS), Sussex mentions a paradoxical situation where globalization of economic activity was increasingly associated with growing inequality within and between countries and increasing impoverishment because the returns of this increased globalization was skewed towards consumers with good incomes. The returns of economic activity were rarely globalised but limited to few firms, or buyers. Producers rarely had

access to corresponding returns. They were instead faced with increased wages of skilled people and lower wages of unskilled workers.

**b) *Immiserization of Growth.***

Manufacturing industries have had traditionally higher real wages and less volatile prices than primary or agricultural sectors, but globalization of manufacturing is making the terms of trade for developing countries worse, causing wages to rise, while unskilled wages remained low. This is called immiserizing growth. This means that despite more economic activity, lower returns or incomes occur. This may be because the manufactured products are similarly being produced elsewhere or the cycle is cost intensive, or quality regulations are raising final product costs beyond what is feasible for producers.

Though the reasons for immiserization of growth may be many, companies are forced to continually search for new markets, develop new products, reduce manufacturing time and emphasize continuous learning. Originally it was seen in primary and agricultural producers. Now it is seen in manufacturing of technically intensive goods as well. In East Asia, for example, during the early 1990's, many developing countries entered the DRAM semiconductor market. In the process, the price of DRAM chips fell to US\$2 from \$50. The only way they could compete in the world economy was to continually lower their prices, contributing to the financial meltdown (Kaplinsky & Morris, 2001).

**c) *Effects on Local firms.***

Local firms in developing countries often lack specific knowledge about what affects their outcomes. How their profits are influenced for example, by increased concentration in the retail sectors in the US or UK, what are the needs of these markets, etc, is not easily understood. Learning about how their performance, in terms of costs, quality, flexibility and speed – compares with that of competitors in other regions or countries helps understand how their skills and incomes can be improved. Globalization of product markets has caused workers and enterprises to be linked across national and international boundaries (McCormick & Schmitz, 2002).

**d) *Global Sourcing and the ‘Stickiness’ Of Markets to Supplier Hubs***

The relatively new aspects that make globalization different from earlier stages is the international division of labor, i.e. the ability of producers to slice up the value chain. That is, breaking up the production process into many geographically separated steps (Krugman, 1995). A good is produced in a number of stages adding value at each stage. Producers locate the different stages such that it improves access to resources and capabilities and facilitates penetration of newly expanding markets. The process of slicing up the value chain provides greater room for developing countries to specialize in the labor intensive stages of the manufacturing process of a commodity which as a whole might be capital intensive. This increases opportunities for developing countries to participate and gain from trade. In the apparel industry, globalization and production activities has meant that a garment can be designed in New York, produced by fabric made in the Republic of Korea, cut in Hong Kong and assembled in China for eventual distribution in the UK or US (Weller, 2003; Hassler, 2005).

**e) *Allocation of differentiated competencies***

World economy has changed significantly over the past several decades, especially in the areas of international trade and industrial organization. The new economy is characterized by the globalization of production and trade. This in itself has enabled industrial capability building in many developing countries (Gereffi et al, 2005). Another significant feature of the global new industrialization has been the vertical disintegration of transnational corporations which have reoriented their business models to keep core and high value adding activities on often intangible competencies while reducing direct ownership over non core functions such as generic processes and volume based functions (Gereffi, 2011).

**2.3.3 Problems faced by supply side firms**

Value chain analysis is still at an early stage, and research is on to strengthen concepts, to develop useful taxonomies and research tools and to identify leverage points for action. There has been a strong need among activists

and practitioners, and researchers for a methodology manual to increase robustness of the research and to aid in collection and interpretation of location specific information. Informally the goal of value chain research is to identify ‘winners’ and losers’ and how the gains of globalization can reach local firms (McCormick & Schmitz, 2002).

### **2.3.4 Benefits of global value chain analysis**

Value chain analysis is useful at a conceptual and a practical level. Conceptually it shows the process by which value is created. This value that is added to products is not accrued only through the production process but through the combination of activities all of which contribute to its final value. In many cases the value that is added through the processes such as designing, the production of certain key components, is higher than the value of final assembly operations. This has important implications for workers, and more so if they are within developing country firms which often undertake assembly, production or lower value added activities (McCormick, 2002)

For firms in developing countries, the positions that they usually are in within the global value chain are in activities that are less beneficial or less income generating. They may also be dealing in primary products or land based commodities or dealing with mass or assembly based activities, which require less skill or knowledge components. This is crucial especially when developing countries’ trade policy is increasingly directed towards acquiring a greater share of world trade.

McCormick (2002) has identified the benefits of value chain analysis as:

#### **a) *Understanding Problems of Market Access***

Though firms may decrease barriers to trade through the elimination of tariffs, or preferential agreements, this alone may not enable producing firms to increase their volume of export. In many ways the ability to increase export volume is related to gaining access to ‘lead’ or controlling firms, large multinationals or retail giants, or technically superior producers which very often

control these networks or chains. Larger firms and those with international connections rather than smaller producers are more likely to gain access into these networks. In this regard, understanding the kind of chain in which firms operate is important, to understand the avenues of growth open to such firms in an international marketplace.

**b) *Acquiring Production Capability***

When firms become part of networks, they are required to upgrade or increase their capabilities in terms of reducing cost, increasing quality and increasing speed. They are also supposed to make these changes in short durations, causing the developing country firms to be faced with challenges to meet these needs. They are aided, very often by these very same firms, through transmission of best practices, hands on advice on how to raise production flows and raise workers skill. This combination of high support and high demands on the firms has shown to yield benefits to firms ensconced in relatively underdeveloped regions.

**c) *Understanding the Distribution of Gains along the Chains***

How do firms gain from being part of value chains? This is related to the activities they perform, and the extent to which they are involved in decision making related to the output of the chain. Competencies such as design, branding and marketing commands high returns but are difficult for developing country firms to acquire. On the other hand, production centered activities are directed towards manufacturing to specifications, which many supplying firms are capable of, and in which the competition is intense and returns are low.

**d) *Finding Leverage Points for Policy and Organizing Initiatives***

By using value chain analysis, it becomes possible for policy makers to understand the points where the gains can be improved for the producing firms. Which firms control flows of information and crucial knowledge? How can producers gain access to such flows, which may in the long run, benefit the firm,

because of the higher value that accrues to such higher order activities? It also becomes possible to exert leverage on these 'lead' firms to ensure that labour and environmental standards are not short changed in the continuous run for profit.

e) ***Identifying funnels for technical assistance***

Multilateral and bilateral donor agencies wanting to provide effective technical assistance to developing country producers are looking towards value chains as a way of reaching out to small and medium producers. Though still in a nascent stage, this is a means of ensuring that immiserisation of growth does not happen for smaller firms in producing countries.

## **2.4 India's Textile and Apparel Trade**

### **2.4.1 The Indian Textile Scenario**

It may be said that the structure of the Indian textiles and clothing industry has been deeply affected by decades of warped policy actions that emphasized self reliance or non-dependent manufacture of goods or production possibilities as a necessary outcome of the independence struggle. The government's licensing and reservation policy (reserving portions of the supply chain for small firms) has kept the industry small in scale with a few large companies other than in the spinning mill sector. The garment sector was reserved for small firms till 2000. Unlike China, large scale has never been the defining feature of the Indian garment industry. India's history of small batch production driven in part by its domestic licensing regime and its policy of reserving apparel production for small firms as well as its mixed cost advantages have pushed the Indian apparel and textile industry towards an upgrading path that its different from several of its competitors (Tewari,2001)

This upgrading path has involved learning how to manage variability and quality within small batch (quasi specialized production rather than shifting towards streamlined full package volume production through a majority of firms emphasize the importance of scaling up.

Given the emphasis on export growth performance it is especially important to understand the nature of global production systems that shape the insertion of third world countries like India into the international economy. The textile and apparel complex, despite its status as a declining sector in developed countries represents the leading edge of economic globalization for many third world countries, including India even as technology change, asset formation, skill premiums and productivity increases shift resources towards more dynamic sectors of a modernizing economy.

The textile and apparel industry has remained a crucial manufacturing sector in many industrial economies and is often one of the leading employees (Tewari, 2001). The main factors which have contributed to the globalization of world apparel industry are the labour intensive nature of apparel production technology, the loss of comparative cost advantages of developed countries, drastic decline in transport and communication costs, search for production sites with lower labour costs and the shift in apparel exports from more restricted to less restricted among the developing countries due to discriminatory nature of the restrictions imposed by the MFA

#### **2.4.2 Emphasis on Small Scale Production**

India's history of small batch production driven in part by its domestic licensing regime and its policy of reserving apparel production for small firms, as well as its mixed cost advantages (low cost have been undercut by relatively low productivity ) have pushed the Indian apparel and textile industry towards an upgrading path that is different from several of its competitors. This upgrading path has involved learning how to manage variability, cost and quality within small batch (quasi specialized) production, rather than shifting towards streamlined full package volume production though a majority of firms emphasize the importance of scaling up (Tewari, 2001).

These upgrading strategies are occurring not only within and through the global value chains that the literature has shown govern much of the trade in

textiles but frequently outside of them even if in interaction with them. Despite the dominant role that lead industrialized country buyers play in coordinating market access, there are circumstances under which firms that are not part of powerful value chains can upgrade themselves and penetrate global markets.

Alternative bundles of comparative advantage can provide firms access to niches outside of chains controlled by mega buyers. Firms that are adjusting successfully are drawing on new sources of learning and developing a global strategy that builds on comparative advantages other than cheap labour, namely on their capabilities to manage and distribute labour intensive goods produced in short runs and small batches and variable designs and demand (Tewari, 1999).

An emerging economy like India must be subject to intense competition from other countries as it confers most favoured nation status to its other trading partners as a member of the WTO. In the rush to remain relevant in global trade networks, must a sacrifice be made by the smaller producers and craft/skill based producers whose very weakness is their individual oriented skill or craft?

### **2.4.3 The Kannur home furnishing industry**

The Kannur home furnishing industry is located in and around Kannur district in the North of Kerala. It has one of the largest concentrations of looms in Kerala, along with Kozhikode districts and has a distinctive product range that includes furnishing oriented hand-woven linen for bedrooms, bathrooms and kitchen. These two districts generate greater than 85% of the total textile exports from Kerala and is a cluster that is entirely export oriented in its product range. It has been catering to international tastes from as far back as in the 1950s, when the first exports of bed sheets and body coverings ('mundu') left the country. It has survived several radically different governments, a vast labour force in the form of traditional handloom weavers who have plied their trade from the 1940s. It is a cluster that has been surprisingly remote, located in the northern part of Kerala, and devoid of any real infrastructural investment for several decades. In spite of



this it continues to win the hearts of buyers abroad, and has further extended its product range into higher value added segments. What has been the driving force behind its continued existence? What has been the enablers of this cluster that achieved the prestigious status of ‘Town of Export Excellence’ in 2006, one of nine towns in India, and the first in Kerala to achieve this, as a recognition of its contribution to the export trade, in the face of nonexistent infrastructural support.

Kannur handloom furnishings have a history that goes back to the 1800s, and is interspersed with the independence struggle, the missionary work of the early Christian movements and the setting up of handloom weaving factories on the lines of German looms from Mangalore to Calicut, to provide employment to converts.

Handloom exports started in the early 1950s with the strong entrepreneurial skills of the Kannur handloom mill owners. It is notable that export happened only from Kannur despite handlooms, as a cottage industry existing throughout the state. The following is the recorded volume of exports from Kannur as specified by the KTEO (Kannur Textile Exporter’s Association).

2003-04 :Rs.260 Crores

2004-05 :Rs.270 Crores

2005-06 : Rs.280 Crores

2006-07 : Rs.310 Crores

2007-08 : Rs.325 Crores

2008-09 : Rs.290 Crores

2009-10 : Rs.225 Crores

(Discussion with Secretary, KTEO, 25/10/2010)

It can be seen that the global recession has had a debilitating effect on the Industry’s fortunes. Added to this has been the negative effect of the raw material price increases, especially of cotton bales. The weakening dollar has also put

pressure on exporter's margins, as prices would have been fixed six months in advance, but the currency fluctuation added to the woes of this sector.

Out of fifty two leading handloom exporters in India eight are based in Kannur. In 2005 it was given the recognition as 'Town Of Export Excellence, one among nine such towns to be awarded this recognition in India, and that too without the government led infrastructure required for exports.

#### **2.4.4 Using the VC approach to study cluster advantages**

In a cluster like Kannur, in the business of exports for decades, individual efficiency is less important than how these firms get access to lead firms controlling the value chain and how these supplying companies can suit their specifications. This often negatively affects the smaller producers and supply side participants negatively. Understanding how employment intensive traditional sectors can restructure to compete in a global environment is therefore important from the perspective of helping such industries adjust in the short run and from the perspective of strengthening their contribution to the region's employment and productivity in the long run.

Knowing about how such producer clusters can face up to global competition without being immiserised is the need among policy circles. This is especially true in developing country clusters which have a dual role of providing employment to semi skilled workforce as well as to reap the benefits of clustering as has been shown in other clusters like the knitwear cluster of Tirupur, the woolen garments cluster of Ludhiana, the surgical instruments cluster of Sialkot and the leather shoe cluster of Agra, - all successfully holding out against developed economies, and providing world class products.

A number of studies have focused on the contribution of clusters of industries and how they are inserted into value chains. The Sinos valley shoe cluster of Brazil (Schmitz,1995) and the surgical instrument cluster of Sialkot, Pakistan (Nadvi, 1999) are instances where the collection or group of firms were

able to get access into value chains linked to developed countries with success. In this study though the Kannur based industries are located in a region or district, the aspect of clustering is studied as a rival theory. Can the combined actions of firms or the effects of the support organisations in the region be responsible for the continued export success and access to developed country markets? The firms are taken as the unit of analysis and not the cluster because it would be necessary to compare the cluster with other home furnishing clusters like Karur and Panipat and that is beyond the scope of this study.

## **2.5 Background of the Study**

### **2.5.1 Historical linkages of the region**

The North of Kerala, particularly the districts of Kozhikode and Kannur have a historical background within which the very history of the nation unfolds. Kozhikode was the first landing place of the Portuguese discoverer Vasco-de-Gama and later the Arabs, the Chinese and the Dutch also reached the shores of Kerala for trade (Trade Enquiry Directory, 2002).

Kannur is bound by the Western Ghats on its East- beyond which the hilly terrains of Kodagu and Coorg begin- with the districts of Kozhikode and Wayanad on the South, the Lakshadweep Sea in the West and the Kasargod district in the North. The beaches of Kannur resonate with a replecendent history of trade. Trade in some of the choicest commodities of ancient times like spices, gold, timber and medicinal plants was done from its shores. The arrival of Arabs, Chinese, Dutch and the Romans has exerted their influence on the land and its people (Trade Enquiry Directory, 2002).

Proof of this can be seen in the historical buildings and religious monuments built as a testimony to the patronage of countless visitors on the coastline of North Kerala primarily Kozhikode and Kannur. Mosques, temples, churches and centers of learning dot the landscape of Kannur, built by the visitors to this coast at different time periods. They speak of the presence of Europeans, the

Chinese, and the Arabs. The Holy Rosary Church is the oldest Catholic Church in Kerala. As early as the 7<sup>th</sup> century Malik Bin Dina built the first mosque at Madaayi (It was built in the 12<sup>th</sup> century with white marble from Arabia). Odathil Mosque at Dharmapatnam is over 200 years old. The Sree Rama temple at Tellichery can be traced back to a millennium or more (Trade Enquiry Directory, 2002)

Historical records indicate that the great explorer visited Marco Polo visited the area circa 1250 A.D. Kannur finds mention as 'Naura' in the Greek work 'Periplaeus of the Eritrean Sea'. Fahin, the Buddhist pilgrim and Ibn Batuta, writer and historian of Tangiers have been visitors to this region, thanks to its unique coastline (Mahdi, 1976)

The European maritime powers mainly the Portuguese, followed by the Dutch and the English have left their mark in the form of architectural monuments and stone structures. Fort St. Angelo was built by the Portuguese. So was the seaside fortress of Bekal. Legend goes so far as to say that the ships of Solomon anchored along the coastline of this beautiful seascape to collect timber to build 'the temple of the Lord.' Romans send regular fleets from the Red Sea to trade for spices like Black Pepper, Turmeric and Cinnamon. This vast demand for spices prompted the Portuguese to discover the direct sea route to India in 1498.

### **2.5.2 The Role of the Basel Evangelical Mission in Kannur**

The Kerala District Gazetteer (1965) has described in detail the administrative and social progress of the district in the 19<sup>th</sup> century. The administrative system of the British government centered on the Cannanore district for the Malabar province. Malabar was a province of Madras state under the British rule consisting of three districts, viz ; Palghat, Calicut and Cannanore (Weavers Service Center, 2005). In the early 1800s the district saw the establishment of a Civil Sessions Court. The provincial court was converted to a Zillah court and later both these were abolished. In 1875 a Civil and Sessions court was established.

Economic and social well being began to diffuse into all areas of the district with the support not just of a governmental mechanism to maintain law and order but by the role of private bodies as well.

The Basel Evangelical Mission was a religious missionary establishment based in Germany and engaged in missionary work or the spread of Christianity to the 'heathen', traditional natives of the then unexplored continents of Asia, Africa and the various islands. Though originated in Germany it had many working stations located in distant continents like Asia and Africa and was established on the philosophy of spreading the gospel (Jayachandran, 2000; Weavers Service Center, 2005; Kurup, 2009).

They entered into India through Karnataka, when the ratification of the East India Company's charter by the British Parliament in 1833 permitted entry to all Europeans into India (Trade enquiry directory, 2002). The workers of the Basel Evangelical Mission entered Kerala through South Kanara and Coorg and established themselves in Cannanore and further down, in the district of Kozhikode or 'Kalikut' as it was then called in 1834. They established their living and working quarters in the northern provinces of Malabar in Kozhikode and Kannur (Thoppian, 2005).

The records speak of the entry of three young men from the Basel mission College, Germany to land in India at Calicut in 1834. They covered the area from Calicut to Mangalore preaching and conversion being their primary duties (Weavers service center, 2002).

It was in 1844 the Basel Mission started a small hand loom weaving factory in Mangalore. Mr. Heller, a trained specialist in weaving came to India from Germany who introduced the first fly shuttle frame loom in 1851. It is said that he introduced the process of dyeing to colour the yarns and the famous Khaki dye was introduced by him. It was prepared out of the rind of cashewnut tree and the extract of the heartwood of the catechu tree (*Acacia catechu*). This was appreciated by the Superintendent of Police of Mangalore, who found it ideal for using it for the uniforms, because it

blended with nature. It was recommended as the uniform. Another indigenous product was the 'shikhari' cloth introduced in the Mangalore weaving unit. It was a big success as the cloth became used for uniforms and other clothing needs. The success of the factory made the mission to start more units in mission stations like Cannanore in 1852 and Calicut in 1859. In 1859 the first weaving factory at Calicut was started. It was a land mark of the handloom industry and was known as the Common Wealth Trust (India) Ltd (Weavers Service Center, 2002).

Trained carpenters from Germany were summoned to make the frame looms locally. The fly shuttle frame looms began to be used over the entire belt of Malabar that enabled weavers to shift to heavier furnishings, dress materials.

The dhotis woven in the mission factories were called 'mission mundu'. Items like check shirting, suiting, bed spreads, towels, satin cloth etc began to be produced by these factories (Weavers Service Center, 2005).

### **2.5.3 Objectives of the Basel Mission**

The objectives of the mission was

- a) To provide employment to the unemployed and hungry people of south India.
- b) To finance missionary stations for the sales of manufactured products.
- c) To convert willing persons to Christian faith.

As the activity of conversion undertaken by the mission progressed, more of the native Keralites became ostracized by their communities. They were deprived by their traditional jobs or employment and rejected by the traditional community (Kurup, 2009).

The Basel Evangelical Mission opened weaving mills in Cannanore even in the 19<sup>th</sup> century and this helped to quicken the pace of industrial development in the district. The mission had a significant role in building up the educational and social

spheres of the district. They were the pioneers of Western education in the Malabar region and their influence can be felt up to Mangalore and coastal Karnataka where they had a number of industrial and social service establishments (Menon, 1965).

The first English school in North Malabar was opened at Thalassery on the first of March, 1856. It was called the Brennen school, Tellichery which later became Government Brennen College. It was started by Edward Brennen, Master attendant of Tellichery in 1862 with his donation of eight thousand nine hundred rupees. Hermann Gundert who wrote the first dictionary in Malayalam was also one of the founders of the BEM and was the first Government Inspector of schools for Malabar and South Canara (Kerala district Gazetteer, 1965).

#### **2.5.4 Historical origin of handlooms in Kannur**

From the 18<sup>th</sup> century, up the middle of the 19<sup>th</sup> century, the system of attire was only to cover the lower half of the body for both males and females, with upper castes of women having the privilege to cover themselves reasonably. Despite a historical limitation on the use of fabric as clothing for their bodies, records of literature like the Greek work 'Periplus of the Eritrean Sea' speak of silk cloth being exported from the port of Kodungaloor (the Muziris) in the 1<sup>st</sup> century A.D. The origin of the cloth has not been mentioned but one can say that in Kerala textile production was carried out about 2000 years back (Trade enquiry directory, 2002).

Handloom textile manufacturing is a craft that has developed in step with human civilization itself. Handloom weaving and cloth making has been prevalent in India as a traditional cottage industry in almost all states, which accounts for India's strong regional specialization of weaving and craft development. Even within a small state like Kerala regional changes of looms used, pre and post loom activities and allotment of work is specifically followed. Organization of work, design and product development and marketing practices or clientele preferring those products are well designated. This is also specific to castes which have carried out the trade as well as practice or occupation of weaving taken up by birth.

The princely states in Kerala had families in the traditions of royalty who followed the practice of bringing traditional weavers into the region. The 'saliyas' or 'chaliyas' traditionally took up spinning and weaving as they were caste based activities. They were brought from the neighboring states of Karnataka and Tamil Nadu to meet the clothing needs of royalty. The Rajas of Chirakkal were one among many of the ruling families who brought in these community weavers and they were allotted land and living quarters in the form of streets or 'therus' in particular localities or regions, which are even now, concentrated living spaces of the Saliya caste in Kannur. This were a form of community living where family members were assigned specific roles and gender based demarcation of duties was evident with many pre loom activities and preparatory activities like warping, weft winding, sizing involving many family members with different skill levels. They carried out the related activities people- were carried out in the community on a continuous basis (Jayachandran,2005; Barathan,2005). These settlements or 'therus' where Saliyas lived and worked is a feature of Kannur as well. Their origin is from different states of south India and their community ties strong.

### **2.5.5 Early forms of weaving**

The Saliya community used the traditional pit loom for weaving. This was a pit about 2 feet wide, 3 feet in length and 2 ½ feet depth. The loom or weaving implements was made of branches of wood, sticks or bamboo which was mounted over these pits. Though it was primitive even the first silk saris of Kanchipuram was made with these system. It was predominant during the 16<sup>th</sup> and 17<sup>th</sup> centuries over many parts of India and this was the traditional cloth weaving method followed by weaver based castes.

### **2.5.6 Origin of the frame loom**

As the missionary work progressed one of the necessities was to establish trades or employable practices that could be taught to the community, and thus enable the financing of these mission. As part of their philosophy and economic well being, they needed to establish trades that would yield profit and attract



others to the mission. It became the responsibility of the mission to provide employment for converts. As the entire administrative framework of missionaries was based on the use of manufactured or finished products to finance their missionary stations they had a strong focus on innovations. Among the missionaries were experts in lithographic printing, photography, watch and clock making and tile or brick making. Missionaries proficient in weaving were also many. Their philosophy was to try and establish a trade or practice that could be taught without much difficulty to the illiterate (in western subjects and practices), could use locally available materials and would generate enough volumes of finished products that would be bought or traded in the community for currency or other services. They focused on the making of technological or product changes enabling the local population to be employed and to earn enough to survive. They introduced tile making and cloth weaving as income generating trades (Kurup, 2009).

History indicates that it was the Basel mission who introduced the 'frame' loom in 1836, in the form it is found today. Called the 'Maggham', these first looms were imported from Germany, according to the directives of Herman Hesse a weaving expert. The first concentration of looms in Malabar was located in Nettur and Chombala in the suburbs of Thalassery and Badagara. The frame loom was developed as a product alternative to the use of the kuzhithari or pit loom. Instead of pits over which wooden planks were put, looms with a wooden frame erected on four wooden stands were arranged with comfortable seating. The advantage was that a weaver could peddle the loom with his feet. The 'shuttle' could be thrown by beating of the shutter by hand rather than placing it through the yarns (Thoppian, 2005; Jayachandran, 2005).

In 1844, the Basel mission started a weaving factory on a small scale in Mangalore. In the year 1851, Mr. Heller, an expert in weaving arrived from Germany. A technical expert, he introduced the fly wheel shuttle that was being

made in Germany. Even now it is being used in the Malabar area. Basel mission established weaving factories in Kannur and Calicut in 1852 and 1859.

### **2.5.7 Initial products and commercialization**

It is interesting to note that the initial products were the 'mundu' or dhoti, called mission mundu, because of the role of the Basel Evangelical Mission. The products received wide acceptance in the community as these products were preferred for important functions. 'Mission shop' in the local parlance of the time referred to factories of the Mission. 'Mission mundu' was prestigious attire at functions in the locality

'Khaki' cloth was an innovation of the Mission, at that time, where coarse cloth was dyed with a dark vegetable based pigment prepared from boiling the cashew frssssuit, and applied to yarn which was soaked in water for 1-2 days. They acquired a dark brown coloring and the rough fabric woven out of this yarn became a preferred item for defense and police force. The colour 'khakhi' originated from Mission activities at Mangalore.

Further development came in the use of new practices which enabled weaving of check shirts- criss crossing of singe yarn on the weft sheet done by the application of starch, making it stiff and able to be passed through the weft with the help of the fly wheel shuttle. Woven designs of more intricacy became possible by using more number of treadles, installation of jacquards etc into the frame loom. Bed sheets of colored yarn began to be a favored product. By 1859 export of handloom textile, through agents from the north of India was in full swing. This was mainly to neighboring countries of Burma, Bangladesh and Sri Lanka.

## **2.6 Initial Export initiatives**

Though introduced by the Basel mission as a means of subsistence, handloom weaving began to be taken up by others in the community as a preferred trade. From a cottage industry it shifted to a factory system. Family members came in as laborers or weaving staff, with a division of labor among these

members. It may be said that this became possible by the ties of the community to the art of weaving. The Saliyas, who were weaver castes brought into the region at an earlier period, and whose community and family organization into 'therus' was to aid the establishment of weaving - thus took to weaving on frame looms with little difficulty.

The Mission itself began to commercialize their weaving operations – with the construction of single storied halls- where women and men worked side by side, on the hand spinning and handloom units. As the interest among the natives grew, they started similar weaving centers at Chovva and Chombala. The Missionary William Peter Schoenthal who came to Kannur in 1874 through an advertisement for a weaving expert in south India, by the BEM in Germany was instrumental in driving the initial commercialization of the industry. He seems to have played a key role in setting up of factories in different areas of Kannur and Calicut and later in giving loans to farmers to grow cotton, desirous of greater supplies of cotton fibre to increase factory production. It may be said that a backward integration was considered important even at that time (Kurup, 2009).

As the handloom and spinning factory flourished an additional factory to accommodate more employees was built by him after much effort to obtain additional funds from Germany. This housed an electrically operated spinning machine, made in Torrington, England in 1896 that enabled the production of a fine quality of woven satin cotton. The satin cotton bed sheet produced by the region, and hugely popular among domestic and export buyers especially of the weaver cooperatives of the region is a hallmark of the region even today.

During the World War I the German missionaries had to leave behind their social educational and commercial contributions, a legacy that was imbibed by the local people of the region, and who carried forward their values of organized and demarcated work, German precision and attention to detail and a strong commitment to the systematic processes that they emphasized on, in the creation of a final, superior product.

### **2.6.1 Evolution of the export trade**

It can be said from the discussion of the historical background of the roots of the industry that the Basel mission had a central role to play in developing the district as a handloom textile center. Slowly it began to attract budding entrepreneurs. One of the pioneers was Samuel Santhosh- a Christian convert from a Thiyya community. He started a small factory in 1890. Choorakkadan Aaron, another convert also started a small weaving factory. He married Emma, the daughter of Samuel and the two companies were amalgamated.

They had a son in 1894, C. Samuel Aaron, who by his early forties became a major industrialist. In 1936 he started the Aaron Spinning and Weaving Mills Ltd at Pappinassery in Kannur. A visionary, he started an industrial training center at Kulappuram and purchased huge tracts of land for setting up large scale factories with power looms. He took over the large factory established by the missionaries in 1852 under the “Commonwealth Trust” which was the the first registered company under the Companies Act. He disposed of it in the 1960s – the premise changed hands many times and later came to be known as the Thiruvepathy Mills Pvt Ltd (Jayachandran, 2005, Thoppian, 2005, Weavers Service Center, 2005).

Shri Samuel Aaron recognized the need of catering to market needs. One such need was for fabric finishing to smoothen the woven fabric. The Cannanore Dyeing and Finishing now called Malabar Dyeing Ltd was established by him. It housed the first cloth calendaring machine which enabled smoothening of the finished fabric and made possible product categories like shirting, dress materials and finishing cloth (Kurup, 2009).

### **2.6.2 Community building through the handloom enterprise**

The next two decades saw the entry of many entrepreneurs – who were either, converts belonging to the Saliya community, or people from the Ezhava or Thiyya community. The social reform movement of Sree Narayana Guru and his

follower Kumaran Asan was to convert the traditional trades or caste trades of the Thiyyas, which was toddy tapping, to other socially and morally uplifting occupations. This drive towards changing the social degradation of the Ezhavas was started just as the handloom weaving industry began to take root. This resulted in many Ezhavas and Thiyyas looking to handloom weaving as an occupation of choice to enable them to live with dignity and uplift them from poverty.

Shri A. K. Nair, an “industrialist, spiritualist and philanthropist” was another pioneer establishing large weaving factories. He established the Raja Rajeshwari Weaving Mills in 1927 which even now continue to export products to first generation buyers, most of whom have a thirty year relationship with the firm. Shri. C. M. Sekharan was another giant of the weaving industry- a traditional Saliya Weaver; he developed his own mills in 1930 and later acquired the huge factory established by Shri Samuel Aaron at Kolapuram. The Mascot Weaving Company was started by him in 1935.

In the post independence period, the handloom industry localized at Kannur and Calicut was thriving due to the establishment of many private weaving factories. In the Kerala District Gazeteer of Kannur (1965) it is mentioned that the most important large scale organized industries of the district were handloom and cotton textiles, timber and plywood, fiber foam, splints and veneers, bricks and tiles, beedi and cigarettes. A census of the distribution of factories in 1964 list 194 cotton textile mills providing employment to 7605 workers- clearly the legacy of the Basel Mission to provide decent, financially rewarding work (Menon, 1965).

By the onset of the 1960s the cooperative movement got underway and the cooperative societies became established where workers were once assured of consistent work and reasonable wages. In 1964 there were 35 primary weavers’ cooperatives and 5 factory weavers’ industrial cooperatives.

### 2.6.3 Unique Organization of work

A unique feature of the region evolved in the nature of work flows among the different establishment in the region. After the second world war during which many factories closed, a few were transformed into cooperative societies to enable continuous work. Further during 1950s traditional markets of Ceylon, Burma, Bangladesh and Singapore tapered down due to deterioration in country relationships. In the 1950s and 1960s a three tier structure of work organization characterized the industry. Factories in the private sector, cooperative societies and single loom owners who did not belong to other groups worked together. The cooperative societies and the single loom owners serving the larger factories, and all three benefited. The larger factories produced quality textiles for export (trade journal) they also produced for large scale textile brands in India. Cooperative societies used to produce products for larger firms and also for domestic market. They had access to markets in the north of the country. These were through commission agents from the major markets in the north (Trade Enquiry Directory, 2002).

The three factors which characterized products from Kannur were quality, texture and design- maintained by a tradition of weaving masters, expert weavers and dyeing masters- in all likelihood trained by missionaries themselves. A remarkable aspect was the ability to procure good quality shirting and lungies. Cheaper items needed for local population as well as high class varieties of bed spreads, window curtains, and Turkish towels. Factory owners and laborers have said to have maintained close relationships to enable the sector to benefit (Kurup, 2009).

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### 3.1 World trade in textiles and apparel

An important outcome of research in international trade has been the position that the traditional Ricardian theory of comparative advantage, even though described as the cornerstone of trade theory and the rationale for and of trade, remains poorly described, with poor empirical evidence or instances of being measured. Beaudreau (2011) talks of a revolutionary finding of the present nature of trade, highlighting its vertical nature and the increasingly global nature of value chains. It becomes necessary to reconsider the horizontal comparative advantage (sector, good) that was formerly the frame of reference in trade theories.

Increased globalization, disintegration of activities and dispersed sourcing of mass produced and used commodities has given rise to a new concept of vertical comparative advantage which is constituted from a region, a link or individual strand of a chain, or a set of strands of links, that may originate from a region or country. Beaudreau (2011) describes these regions or areas to have vertical comparative advantage that enable firms or localized industries to assume

specific capabilities, like a specific technology, organizational work allocation, or a set of transformative practices or activities. This is found to be a more complete theory of comparative advantage that is testable, amenable to policy analysis and in which existing cases of trade are better explained.

Kilduff and Chi (2006) investigated long term patterns of trade specialization among leading textiles and clothing exporting nations, assessing patterns of comparative advantage across the textile machinery, manmade fiber, textiles and apparel sectors, to examine to what extent they conformed to trade specialization and industry evolution theories. They used a revealed comparative advantage index for thirty nations over a forty two year period. It was seen that long term patterns of specialization reflect expectations of factor proportions theory and industry evolution models. Product groups and income of countries was found to be correlated, with higher income nations dominant in capital intensive sectors.

Goto, Natsuda and Thoburn (2011) highlight what is perhaps better described as a preoccupation with China, especially after its accession to the WTO. A key aspect of its dominance has been its ability to upgrade into high value added, sophisticated product groups, besides having a dominant presence in global markets for basic, labour intensive products. A key category is the area of textiles and garments of which it is the largest exporting country. A finding of this study has been that despite sheer size and scale of exports, smaller countries like Vietnam have been effective competitors in markets where China is dominant. A key aspect of this has been the ability of exporters and garment suppliers of Vietnam to deal with reorganized international production networks, focus on their own technological upgrading, and the promotive influence of the US Bilateral Trade Agreement in 2001, which opened the US market for them. The effect of labour shortages and large deviations among suppliers in aspects of upgrading and competitiveness is also examined.



Villoria (2009) examined the effect of Chinese export expansion on global manufacturing prices. The lowering of prices means increased global competition and allow an import of cheaper and wider set of inputs and consumer goods. In lesser developed countries like Kenya, Mauritius and Sub Saharan Africa, which are involved in export of manufactured goods, this is seen to significantly decrease in world prices of key sectors like textiles, wearing apparel and footwear leading to substantial reductions in their import prices. This also means that this reduces their export prices and their terms of trade are negatively impacted from Chinas manufactured export expansion. He used the economic geography model of Redding and Venables to decompose the import growth of a large number of countries into supply and demand capacities.

Wysokinska (2009) carried out an economic analysis of the modern textile and clothing market within the period of the final completion of the ACT/WTO Agreement. He observes that the dynamic development of construction, needs for functional comfortable and decorative designs, decorative cloth and textile wallpaper, carpets and textile floor coverings have impacted the global and European textile and clothing trade and the competitive position of different products especially for the far east Asian countries. There is a significant increase in these highly specialized technical textiles, which have implications for these producers.

Lemoine and Unal-Kesenci (2008) examine the rise of China and India in international trade. They observe that the demographic and economic superiority of these countries have enabled an international division of labour. They have maintained specialization in textiles and developed outward oriented sectors linked to new technologies, taking advantage of off shoring and outsourcing. Their impact on world supply and demand of manufactured goods, primary goods and services, is possible because of their technological investments, and quality upgrading. The authors state that despite this superiority, they cannot trigger a global growth phenomenon by themselves.

Heron (2008) examines the position of small states in the global politics of trade and development. It states that the policy regimes of these countries shape the timing, form and economic consequences of trade reform. The factors within the country, like small population size, poor factor endowments and weak infrastructural capacities, may impact the outcomes of trade but it is the aspects outside of the state, such as dependences on preferential trade and the lack of export diversification may be negatively affecting the ability of these countries to benefit from the liberalization of the textiles and clothing sector.

Zafar (2007) examines the significant trade between Ghana and Africa that has significantly affected the industrialization of Sub Saharan Africa. Trade between the regions totaled more than \$ 50 billion in 2006, with oil from Angola and Sudan, timber from Central Africa and copper from Zambia. The upside of this has been an upward swing in prices and has boosted real GDP in sub-Saharan Africa. But this has increased the cost of import for other oil importing sub Saharan countries, and reduced its export of low cost textiles. The author states that China poses a challenge to good governance and macroeconomic management in Africa because of the potential Dutch disease implications of commodity booms.

Adhikari and Weeratunge (2007) describe the effect of the phasing out of the ATC (Agreement of Textiles and Clothing) on the South Asian countries depending on their level of competitiveness factor endowments and marketing caliber. It is seen that the temporary safeguards that buyer countries imposed on china provided some breathing space for less competitive countries in the region. The potential of the south Asian region to develop as a global T&C hub is suggested subject to three levels of reform. A common position at the international negotiations level to overcome protectionist market access barriers is one. This is possible through the use of a regional cooperation platform to trade investment and technology transfer. Second is to actively invest to overcome supply side

constraints to enhance competitiveness of the region and third to adopt strategies within and outside the region to ward off competitiveness.

Bezuidenhout, Khunou, Mosoetsa, Sutherland and Thoburn (2007) studied the impact of globalization and poverty on households of employment and the restructuring of the textile industry of South Africa. Workers in textile sector who in the globalization game of industrial restructuring and trade liberalization are retrenched or let off, are examined for this effect on household livelihoods poverty. It is seen that job insecurity was increased and unemployment was higher, thrusting families into deep poverty which may be transmitted intergenerationally.

Whalley (2006) examines the role of China in the world trading system given that it acceded to the WTO only in 2002. What are the merits to China as a result of WTO accession are examined with regard to key trade issues like anti dumping and textiles and apparel trade. Its participation in regional trade agreements and commitments in key service areas are examined.

Tewari (2006) challenges the frequently held position that price, volumes and cost competitiveness will be enough for export success among apparel producers in a post MFA scenario. She states that though cost competitiveness is important, non price and institutional factors are seen to affect the ability of producers to cater to variety, quality and timely delivery in addition to price. A constant emphasis on low wages and large volumes can lock producers at the lowest end of the value chain. An alternate path particularly by ending of quotas and a global division of labour should be considered an opportunity for producers to chart an alternate growth path based on deeper skills, innovation, design and quality upgradation in addition to lower unit costs.

Eichengreen and Tong (2006) analyze the impact of China's integration into the global economies, particularly other Asian countries in three areas of capital goods, consumer goods and intermediates. It examines the role of vertical and

horizontal FDI and how they affect supply chain industries, the fragmentation of production and the emerging international division of labour. Countries specializing in the production and export of components and raw materials felt positive effects from China's growth, while countries producing consumer goods felt negative effects.

Su, Gargeya and Richter (2005) examined the global sourcing shifts in the US textile and apparel industry. The last decade saw the trade agreements like NAFTA, CBI has aided the increased global sourcing to sustain competitiveness. The textile and apparel manufacturers and retailers have been forced to look at suppliers who could meet the criteria of low cost, high quality, reliable delivery, quick response time and flexibility. The patterns of sourcing have shifted to Mexico and CBI countries compared to imports from mainland China and Hong Kong in 1993.

Shelton and Wachter (2005) examined the effects of global sourcing on textiles and apparel in the context of quota elimination. Trade of the USA has been significantly impacted by the forming of trade agreements with 'near shore' countries of Canada and Mexico through the NAFTA and the CBI. These trade agreements have influenced the production, manufacturing and sourcing of textile and apparel products. It has affected the small and large scale restructuring of the industries in response to the changes in trade of textiles and apparel.

### **3.2 The Commodity Chain and Value chain literature**

Immanuel Wallenstein's (1976) World systems approach was the basis of the global commodity chains approach. He called a world-system a social system that has 'boundaries, structures, member groups, rules of legitimating and coherence'. He goes on to say that a world system is one in which there is extensive division of labour. It is not only a functional or occupational division of labour but also geographical. There is also the phenomenon of a 'social organization of work, which

magnifies and legitimizes the ability of some groups within the system to exploit the labour of others, and to receive a larger share of the surplus.

A second aspect of Wallerstein's world systems approach is that the world economies are just divided into the core states and the peripheral areas. The peripheral states are indigenously weak. The complexity of economic activities, strength of the state machinery and cultural machinery are also weaker. Two or more regions are integrated through the market than through a political center, and are independent with respect to necessities like food, fuel and protection.

Frederick and Gereffi (2011) uses the global value chain approach to analyze the upgrading trajectories of leading apparel exporter at the end of textile and apparel quotas and the economic recession. This has also been affected by the consolidation and reconfiguration of global supply chains. The findings were that Asian countries' competitive success was due to end market diversification. They have benefited from deeper linkages into textile production, apparel design and branding, which has been key drivers of the industry. Though regional trade agreements like NAFTA and DR-CAFTA have provided proximal countries access to the US market and ties to branded manufacturers, they have created reliance on US exports and hindered suppliers from improving their individual strengths.

Yrkko, Rouvinen, Seppala and Anttila (2011) studied the capture of value in global supply chain of the NOKIA N 95 Smartphone. Interesting, grass roots work on the geography of the value added for a NOKIA N 95 smart phone was studied. Final assembly commanded only 2% of the value added, and though it was mostly offshore, in China, Finland or India, developed countries to which the phones were sent, like Europe and the US commanded up to 51 or 68% of the total value of the product even when they played little role in supplying the physical components. They conclude that the capture of value added is largely detached from the flow of physical goods. Instead services and other intangible aspects of the supply chain

dominate. International trade statistics provide little or no indication of the change in the value of the end product

Oro and Pritchard (2011) studied the value chain restructuring of the Australia – Japan beef trade. Value chain restructuring is studied with respect to the beef trade between these countries. Earlier Japanese investors had constructed captive governance arrangements to coordinate the production of high value beef for the Japanese market. Now this is affected by changes in the institutional environment and a path dependent co evolution of firms. It has been caused by declining beef consumption in Japan, Japanese retail consolidation affecting competitive advantage, process upgrading of US and Australian beef firms to undertake process upgrading and the exogenous shock of a BSE outbreak in 2003.

Nathan and Posthuma (2009) studied the implications of global production for Indian firms and labour. They state that world trade has been growing faster than world income, but the volume of international trade has fallen much more than world income, which is surprising. He attributes this as due to components entering into trade as components and then again as full products when exported. Global production networks (GPNs), global value chains (GVCs) and global commodity chains (GCCs) are explanations used to explain this process.

Ruben and Zuniga (2011) described the impact of coffee certification schemes in Northern Nicaragua to demonstrate how standards were set against each other. Small holder farmers are increasingly subject to different kinds of standards that offer specific conditions for market incorporation that impacts farmers welfare because of their rigorous procedures and the degree of upgrading to be taken up to be part of the value chain. A comparison made across income, production and investment of small holdings revealed that they differed in terms of risk behavior, loyalty, gender attitudes and loyalty. The standards compared were Fair Trade, Rainforest Alliance and Café Practices labels. It was seen that Fair trade practices support initial market incorporation, but it is private labels that offer incentives for quality upgrading.

Pickles and Smith (2011) studies the concept of delocalization and persistence in the European clothing industry. The European clothing industry followed changing geographies. It examines how sourcing strategies shift towards the globalization of production networks alongside an intensification of the regionalization of clothing production in low cost producing regions of East central Europe and North Africa that are proximate to major markets.

Scott and Gibbons (2011) study the emerging threats to MNC subsidiaries and the cycles of design. He observed a number of activities that are being phase out in the dealing between the MNC and the subsidiary. Subsidiaries found themselves in hanging positions due to growing complexity in corporate governance, eroding barriers to trade, the use of ICT and lowering of control. Disaggregation of value chains are seen to occur which lead to lowering of bargaining power and resource mobilization capabilities.

Abonyi and Van Slyke (2011) studied about the role of the governments in the event of globalization of production. What are the implications for governments and how can they improve their interactions with business in strategic and beneficial ways. They revealed the importance of governments to understand global value chains, value chain related trade facilitation, investment in logistics and the importance of strengthening enterprise clusters, effective education, skill development and training.

Waldron, Brown and Longworth (2010) examined China's agricultural mechanisation programme to build high value supply chains and large modern agro industrial enterprises to study its effect on rural development, food safety and trade. It is seen that as a part of the high value beef supply chain, Chinese agricultural modernisation to fast track chains have perverse outcomes.

Verhart and Pyburn (2010) examine the contribution of women in global value chains, which are traditionally undervalued in the literature. Harsh labour conditions and insufficient valuation is a common phenomenon in the horticulture

and garment chains. In the agricultural chains, they illustrate that particular intervention in a global coffee chain enabled the revaluation of women's contribution and improved their position.

Thomson and Nadvi (2010) examine the CSR (corporate social responsibility) literature in relation to local country supplies. They argue that local collective action through industrial associations can potentially reduce costs and promote local embeddedness of CSR initiatives. The national regulatory frameworks and international networks are different for value chains governed by lead firms and those where CSR pressures come from a variety of sources.

Ras and Vermeulen (2009) observe that sustainable development in business practices has resulted in businesses on the demand side formulating sets of requirements for sets of suppliers to develop their CSR standards. Sustainable development needs to be promoted through market interactions and this needs to be taken up by developing countries in global value chains. They develop a model explaining business performance with entrepreneurship and apply it on South African table grapes producers.

Ponte (2009) examines conventions of quality and supply chain relations in the South African wine industry. He argues that agri-food lead firms do not govern chains solely on the basis of buyer power, market share and economies of scale or scope. He states that wine quality conventions are transmitted into specific functional division of labour and supply relations. Lead firms are able to drive a value chain only when industrial and market conventions are dominant because they are easier to convey and transmit.

Kundu and Chopra (2009) examined the value chain for Indian coffee to see whether digital tracing technologies in value chains were useful to provide consumers and users enhanced information about specific products. Here Chilean wine and Indian coffee was examined. The 'fair tracing' was a research project funded by the Engineering and Physical Sciences Research Council of the UK. The



ideas was that the use of tracking technologies will help increase the value chain ‘rents’ that accrue to farmers in developing countries by allowing them to charge more for differentiated products increasingly demanded by informed consumers.

Kaplinsky and Morris (2008) describe the benefits of value chain analysis as a tool to enhance export supply policies,. Mainstream economics may examine the policy agenda for exports as a series of behind, beyond and between the border trade related issues. The discussion of rent and rent appropriation, the growing role of standards and turnkey production are done. They examine contemporary value chains having a reduced likelihood of supply chain programmes in low income economies outside of Asia.

Gibbon (2008) carries out a reinterpretation of some GVC Concepts from the experience of African clothing exports. He examines the influence of culturally specific conventions of industrial organization and quality on GVC governance, entry barriers and suppliers upgrading possibilities. There exist differences in the shape of clothing production and trade into these markets that neither MFA phase out nor financialisation of specific conventions of industrial organization and quality can overcome.

Gereffi (2007) examines the effect of global economy changes on China, India and Mexico, which have divergent development models. He argues that the apparel industry also illustrates the consolidation trend because of a shift in international regulation after 2005. The industrial upgrading trajectories in China and Mexico are compared using international trade data to look at export profiles in key industries and products.

Knorringa and Pegler (2006) examine the effects of upgrading on labour impacts. The upgrading by developing country value chains are expected to lead to improvements in developing countries, through the activities undertaken in the chain. But they observe that the broader and forceful process of immiserising growth makes it unlikely that workers in such relatively low skilled production

activities will enjoy improvement in labour conditions. Ethical standards in sourcing agreements may lead to improvement of labour conditions but this may not be always followed.

Sturgeon (2008) expanded on the theory of global value chain governance (GVC) developed by Gereffi, Humphrey and Sturgeon (2005). He suggested that the buyer- and producer-driven GCC typology was based on a static, empirically situated view of technology and barriers to entry, but both are dynamic because of technological change and firm- and industry-level learning (Henderson et al, 2002; Ponte and Gibbon, 2005 cited in Sturgeon 2008) This led him to adopt a more dynamic view of chain governance because there was a clear shift away from the vertically integrated, producer-driven variant in a range of industries, and the buyer-driven type could not characterize all of the network types being observed in the field. Sturgeon suggested firm level governance depended on what were the activities bundled in each node of the chain, and how each node passed knowledge, information and material to the next. He put forward five generic ways that firms coordinate or 'govern' linkages between value chain activities. They ranged from simple market linkages, to modular linkages, relational linkages captive linkages and hierarchies. The type of these linkages varied depended upon three distinct variables, the complexity of information exchanged between value chain tasks; the codifiability of that information and the capabilities resident in the supply base.

Pratt (2008) stated that the global commodity chain concept was not possible to be applied without changes for cultural industries and focus on the full cycle of production was required, rather than linkages alone.

Bair (2005) described global value chains are 'Sets of inter-firm networks which connect manufacturers, suppliers and sub-contractors in global industries to each other'. Werth (2008) has described that they have "socially dependent and shifting boundaries, different degrees of monopolization, and variations in geographical extensions, different property arrangements and different modes of labour control" (Fold & Larsen, 2008 cited in Werth (2008)).

As a tool for development studies GVC analysis deals with examining “the diversity of insertion of developing countries in international trade and seeks to identify the opportunities they offer” (Daviron & Ponte, 2005).

Amin (2004) in a World Bank sponsored study on the Cambodian Garment Value Chain found that it worked well as an analytical tool. It was useful to examine the non state barriers in specific chains and enabled a holistic view of processes and institutions. In the environment of global manufacturing and services environment, there was a shift towards increased information, virtual integration, network seeking FDI, integrating logistics and collaborating with network partners in an environment of the WTO, this called for the use of value chain analysis to study the Cambodian Garment supply chains. The unit of analysis here was the network of suppliers and buyers that produced a product. The aim was to identify policy induced costs, but also non state transaction costs (e.g. logistics, manufacturing support).

Barnes and Morris (2008) in their study of south African firms linking into global automotive value chains found that though substantial upgrading occurred within the south African automotive industry as a result of linking into chains, they were increasingly being subject to tighter market conditions, the travails of excess global production capacity and the emergence of low cost production locations principally in Asia was a serious limiting factor to these firms. Though in the short term they benefited from insertion into the global value chains, the long term sustainability and development of the industry is questionable because of the need to develop the national industrial policy and to adopt the world class manufacturing standards.

Hassler (2005) examined the Indonesian garment chains centered in Bali to study how locally developed Batik specialize based cloth and embroidery products was organized and governed within the local and global economy. It also examined how it was organized and the benefits of the same. Production was

carried out within extensive networks of rural home industries and the localized nature of this enabled upgrading in aspects like product development.

Tuvhag (2008) has examined the value chain of fair-trade coffee, focusing on income and the vertical integration. The emphasis is on the fair trade impact that links the producer and the consumer, and recognizes that it is becoming increasingly differentiated with value being added in the consumption markets in the North, where rents are large. The study revealed that though the concept of fair trade increased producer incomes and their market power, the increase in the final retail price as a result of fair trade branding did not necessarily accrue to the producers, because other inefficiencies further down the chain, ate into these margins.

Grunsen and Smakman (2001) draw on the East Asian apparel industry to observe how LDCs industrialize and advance their position in the world economy. They suggest that the first type of strategy such firms used are the retention and wage depressing strategies which focus on shifting the burden of labour cost or shortages elsewhere to be able to compete on the basis of low wages. This has been done through the use of foreign labour and the relocation of production and /or international subcontracting. This results in the multi-layered/multi-tiered network of production and distribution in many different countries resulting in 'triangle manufacturing'. The second type is the more proactive strategy aimed at upgrading and changing firm competitive advantage. He distinguishes between upgrading within competition and upgrading beyond production (into ODM, OBM, marketing, retailing and distribution). A third strategy they suggested was the surrender strategy implying a partial or complete exit from the industry.

Palpaceur, Gibbon and Thomsen (2005) analyzed the clothing import patterns and sourcing practices of major clothing retailers in the UK, France and Scandinavia and relates them to corporate financing in the United Kingdom. A central conclusion of this paper is that GVCs are now reaching a level of maturity

that imposes new limits on the opportunities they provide for developing countries. The sourcing networks of global buyers have spread over a large range of countries and regions, clothing consumption in developed countries is almost entirely fed by imports from developing countries but high-capability—and in some cases globalized—suppliers have reaped the benefits of service-based and volume-based upgrading to build high entry barriers into their competitive positions. In these maturing chains, growing pressures from financial markets are also skewing the distribution of value in favor of shareholders to the detriment of established suppliers, casting serious doubts on the contemporary relevance of classical “industrial upgrading” paradigms.

Gwynne (1999) examined the export oriented agriculture in Chile and how it interacted with the global agri-food system. The Chilean fruit industry has recorded a rapid growth in exports over two decades. The relationships between global processes and local response are explored in relation to a particular region in Northern Chile and the impact of this of the local land and labour markets as well as on the rural institutions of the region.

Leslie and Reimer (2003) examine the home furnishings commodity chain and how it has been influenced by cultural industries like fashion. Furniture manufacturers have been forced to introduce more products frequently and compress their product development cycles. Due to the dominance of retailers, new power relations are set and they influence style changes. Furniture is affected or has to follow trends in clothing, or in related sectors like home ware. They bring out the multi-stranded and multidirectional nature of commodity networks where individual commodities like furnish in metamorphose with other types of goods in industries like fashion, furniture cosmetics and jewellery.

Schmitz (2006) examined the power of the global value chain approach in explaining the growth of production capabilities and the distribution of gains in the garment and footwear industries. It looks at how the changes in production capabilities have affected upgrading opportunities of local enterprises. The extent

of the product and process upgrading is examined and whether functional upgrading is significant. He found that though evidence was there about the distribution of gains, it remained weak.

Bair and Dussel Peters (2006) examined the endogenous growth in exports and sustainable development of Mexico and Honduras, which has been linked with the United States through global commodity chains since the mid 1990s. They observe that the apparel industry in the region is not benefiting from linkages with the Americas because of the regulatory regimes with rules of origin designed to benefit US fabric manufactures. They were also affected by competitive pressures from China and restrictions in the institutional and macroeconomic environment of the region.

Raikes, Friis Jensen and Ponte (2000) compared the two important methodological positions used for analyzing the political economy of global production and trade- the global commodity chain analysis and the filiere tradition. It looks at the similarities and differences as well as some criticisms of them.

Hughes and Reimer (2004) describe the geographical aspect of commodity chains relating to how places have become connected to one another and in what places. Here the commodity chain is used as a strategy to understand the wider dynamics of global social and economic change. The exotic food industry, the African horticultural exports, agricultural liberalization and tropical commodity supply chains are described from the point of view of their geographical spread and globalized connections.

Scott (2006) examined the low technology labour intensive industries of footwear, clothing and furniture to examine the geography and distribution. The similarities and contrasts in the geography of production between more developed and less developed countries and the commonality of agglomeration despite level of development is a common feature. Spatial agglomeration and international

commodity flows function as mutually reinforcing phenomena and is a common feature of production sharing agreements and subcontracting arrangements between high-wage and low-wage countries.

Bair (2008) analysed embedded networks and global chains approaches. As frameworks to study global economic organization, they are compared in terms of their connectedness of actors and activities. The study contrasts the micro sociological foundations of the embedded network concept, and contrasts it with the commodity chain approach which understands network governance in terms of power relations or 'drivenness'. She highlights that the recent theory of global value chain governance developed by Gereffi, Humphrey & Sturgeon (2005) departs from a macro sociological tradition of earlier networks to a micro oriented understanding of governance that draws more from transaction cost theory.

Krueger (2007) brings out the ethical issues surrounding global supply chains of multinational companies in developing countries, with special reference to China. He analyses the ethical norms and compliance components of such industry wide regimes in the toy, textile and consumer electronics industries and how these are applied in the multinational supply chains in China. He observes that heightened public moral pressure and expectations and the need to manage long term reputation, and financial costs through standardization of policies, procedures and compliance monitoring has caused the Chinese supply chain partners to be committed to these standards.

Morrison, Petrobelli and Rabelloti (2008) examined the global value chain analysis in the light of the 'technological capabilities' to innovation among LDCs. Though the firms in LDCs benefit from participation in value chains, it is seen that the chain approach does not examine the issues of learning and technological effort at the firm level. The endogenous process of technological capability development at the specific firm level effort must be highlighted and this calls for a shift in the empirical and theoretical approach incorporating technological as well as knowledge flows within and between different global chains. A harmful

neglect of the analysis of the detailed mechanisms linking value chains with local firm learning and innovation may be taken care of by incorporating a TC (technological capability) approach.

Humphrey (2006) in his study on the policy implications of trends in agribusiness value chains of nontraditional agricultural products finds that it offers potential for economic growth and poverty reduction but increased vertical coordination of the chains by lead firms puts pressure on small farmers ability to upgrade. They are challenged by unrealistic demands posed by public and private food safety standards

Kanji, MacGregor and Tacoli (2005) describe how the two methodological approaches, livelihood analysis and value chain analysis can be combined. Livelihood research tends to focus on people and prioritize the local context whereas value chain analysis focuses on relationships and other linkages between firms prioritizing vertical linkages. Given the increasing interaction between local and the global aspects, a combined approach is advocated.

Keane (2008) suggests a new approach to global value chain analysis. She classifies the common approaches as 'value distribution approach'; where final retail price is used as proxy to the division of value added or economic surplus. The input output approach assumes that a change in x will result in a value added of y, but as firms do not operate in isolation they may be affected by other factors, she suggests that a combined approach of the value distribution and input output approach, in tandem with the interaction between internal and external GVC governance structures is called for.

Bair and Gereffi (2003) examine the developmental consequences of globalization at multiple scales using a commodity chain framework, of the North American apparel industry. Though the industry is driven by lead firms that coordinate production and sourcing, their decisions have implications for workers in many communities. Though external linkages have benefited firms in many



developing countries, the institutional environments are a crucial factor in shaping international networks and mediating their consequences in the particular communities where chains touchdown. The WTO, NAFTA, CBI, national and local level regulatory regimes (industry associations and labor markets) were found to be key influencing factors deciding firm outcomes.

### **3.2.1 Governance in Global Value Chains**

Palpaceur (2000) built on Humphrey and Schmitz's (2000) background paper to develop a number of propositions regarding the characterization of governance in value chain analysis. Gereffi (1994, p. 97) defines chain governance as "authority and power relationships that determine how financial, material, and human resources are allocated and flow within the chain". Humphrey and Schmitz (2000, p. 2-3) stress that governance involves the co-ordination of economic activities through inter-firm and intra-firm relationships, and draw on transaction-cost theory to identify various modes of governance or co-coordinating mechanisms. He brings in the role of power relations and coordination mechanisms in the definition of chain governance. The importance of coordination mechanisms between and within firms is studied as well, to examine the determinants of governance modes or the foundations of power relations and coordination mechanisms within chains. This led to the development of a matrix of governance modes where power –asymmetrical and symmetrical power and coordinating mechanisms that were based on the market, trust or rules were examined.

Humphrey and Schmitz (2002) have stated that the concept of governance is central to the global value chain approach. It refers to the inter firm relationships and institutional mechanisms through which non market coordination of activities in the chain takes place. This is enabled by the setting and enforcement of product and process parameters to be met by actors in the chain. They state that the facilitatory role of governance is possible when buyers set and enforce parameters because of the risk of producer failure. Product and process standards are also set

by government agencies and international organizations dealing with quality standards or labour and environmental standards.

Messner (2004) used the concept of a 'world economic triangle ' to describe the question about the scopes of action open to regions (a local firm, public organizations and policymakers) in the new world economy. He attempts to find out the global governance structures that are relevant for local actors and how they affect local development. He examines whether local actors have the autonomy and resources they need to deal actively with new demands placed by the global economy, to build specific competitive advantages and to influence and shape their region's prosperity.

Messner (2004) highlights the two central discourses in the world economy of governance. He suggested the two approaches as the neoliberal perspective and the intergovernmentalist perspective.

Neoliberals describe a worldwide economic policy which sets the stage for firms, or states to engage in a locational competition that has a minimal regulatory framework. It suggests the lowest possible level of political intervention in global financial, goods and labour markets. It advocates open and unregulated global markets based on a weak multilateral regulatory framework, developed by international organizations or co ordination between states. The objective of global governance, international cooperation and coordination of economic policies are needed as a means of ensuring rule systems that guarantee property rights, safeguard free trade, ensure free movement of capital and minimize state intervention. This approach is highlighted in the "the Washington Consensus". (Williamson 1997, cited in Messner (2003).

The Intergovernmentalist perspective calls for a global regulative policy, to temper global market forces. According to Messner (2004) this is an approach highlighted by Fred Bergsten (1996), Dani Rodrik (2000, 2001), Joseph Stiglitz (2000) and Vincent Cable (1999). This is called for because economic processes

are increasingly international and national organizations may no longer be able to control or shape these movements. Dense multilateral cooperation and coordination among states or in inter- or supra national organizations (e.g. IMF, World Bank) are needed. The objective is to create a worldwide market economy geared to responsible social, economic and ecological aims, where the actors can involve in fair and efficient free markets, which has equal trade capital, technologies, intellectual property rights and national currencies.

Gereffi, Humphrey and Sturgeon (2005) built on the initial concept of 'buyer driven' and 'producer driven' governance developed by Gereffi ( to better explain governance in global value chains. The study draws on three streams of literature- the transaction costs economics, production networks and technological capabilities and firm level learning to develop three variables that largely determine how global value chains are governed and how they change. The three variables they highlight are

- a) The complexity of transactions,
- b) The ability to codify transactions and
- c) The capabilities in the supply base.

Based on this the study identified five types of global value chain governance. These were hierarchical, captive, relational, modular and market based- ranging from high to low level of explicit coordination and power asymmetry. It highlighted the dynamic and overlapping governance variations through industry case studies in bicycles, apparel, horticulture and electronics.

Gibbon, Bair & Ponte (2008) in their introductory paper on governing global value chains, stated that it was the concept of governance that had received the most theoretical and empirical attention in global value chain studies. According to the literature, governance has three kinds of interpretations- as a driving mechanism, a coordinating mechanism and as a normalization mechanism. The driving interpretations relate to Gereffi's (1994) producer driven and buyer

driven governance structures. This was based on the premise that producer driven chains were driven by manufacturers while buyer driven chains by retailers and /or marketers. This was based on the Fordist model of vertically integrated mass production in industries such as motor vehicles. The buyer driven concept was highlighted in the relationship between overseas buyers and clothing manufacturers in Asia. Governance as coordination was highlighted by Sturgeon (2001, 2002) in his study on electronics industry. The ability of competent 'turn key' suppliers to provide their clients with a full range of services without much dependence on lead firms was possible through 'modularity'. The ability to coordinate was determined by

- a) The complexity of the information and knowledge required to sustain particular transactions:
- b) The ease with which information is codified and transmitted efficiently between parties and
- c) The existing capabilities in the supply base with regard to the particular transaction.

In the third analysis of governance as 'normalization' means to realign or change a given practice so that it mirrors or materializes a standard or norm. These involve prescriptions about what actions buyers should take when governing a value chain, and what specific qualities suppliers should aim for and how they should secure them. This approach was mainly highlighted by Gibbon and Ponte (Ponte, 2002; Daviron & Gibbon, 2002; Daviron and Ponte, 2005; Ponte & Gibbon, 2005) to establish that the immediate normative environment within which value chains operative decides what actions buyers should take when governing a value chain and what specific qualities suppliers should aim for and how they should secure them.

Gibbon & Ponte (2008) examine the governmentality literature and sees economic governance primarily in terms of the difference in distribution of

attributes between firms along with gains. It looks at invoked modes or practices and interprets it through economic agents' descriptions of their own governing or governed practices. It looks at the role of expert practices and expert knowledge in GVC governance. A drawback they identify is that the governmentality literature glosses over or fails to highlight problems associated with the actual implementation and effectiveness of 'expert practices'.

Ponte and Gibbon (2005) examined the role of quality standards and conventions in governing global value chains. They observe that global value chains are becoming increasingly buyer driven, though the coordination of chains is becoming increasingly remote controlled. This is possible because lead firms have been able to embed complex quality information into widely accepted standards and codification and certification procedures. The writers draw on convention theory to state that it is the legitimacy of the content of quality and the tools for managing quality that will be taken up by firms by the help of a set of shared values and on legitimized procedures for measuring quality performances

Ritter (2007) that instead of considering the hierarchies, markets and networks as three different types of governance means, he suggests a framework incorporating all three. The relationship governance mode is suggested by markets, hierarchies and networks, where markets and hierarchies were two sides of the continuum.

Haan & Oldenziel (2003) in their report by SOMO which is an independent research agency was called upon by the Dutch trade union FNV to carry out the assessment on whether IKEA was implementing its firm standards called 'the IKEA Way on Purchasing Home Furnishing Products' brought into focus the increasing importance of third party assessments of governance in factories. This is seen in the case of large retail chains. The independent assessment agency SOMO conducted studies at three factories in three countries which are important supplier countries to examine whether factories ascribed to the IKEA code of conduct. It was revealed that issues like child labour was not common and health

and safety rules were generally followed (in the first tier suppliers). Protective measures needed to be better used. The use of bonded labour was seen in two cases and most frequent violations was reported in the areas of freedom of association and the right to collective bargaining, wages and hours of work.

### **3.3 Emerging trends in trade globalization**

Thoburn, J., Nguyen Thi Thanh Ha., & Nguyen Thi Hoa (2002) describe globalization as the process of integration of countries into the world economy through trade liberalization. It takes place in a context where firms increasingly plan their production on a worldwide basis aided by developments in transport and communication. The trade liberalization process of countries aim to reduce the anti export bias, associated with the ‘protection of infant industries’ argument against imports, and to realize economies of scale through exports, greater exposure to technological developments and increased competitive pressure on the import side.

Despite increasing non tariff protectionism, trade has increased. International trade of sixteen industrial countries has grown significantly faster than their output. Exports grew at an annual rate of 4% compared to a GDP growth rate of 2.7% (Maddison 1991: 74 cited in Sander, 1996).

Another aspect is that between 1965 and 1985 there was a relative increase in the developing countries’ share in world manufacturing production from 14% to 18% and their world export share in manufactured goods increased from 9% to 18% (Singh 1994: 177) reports that over the 1980s third of the world’s manufactured exports grew with an annual rate of 12%- two or three times faster than the corresponding number for industrial countries.

An important outcome of the process of globalization is a felt perception of increasing uncertainty and vulnerability, because of the struggle for competitive advantage between firms and within and between countries (Oman, 1994:33 cited in Sander 1996). This calls for an increasing extent of corporate restructuring and

downsizing as well as structural changes, temporary unemployment and emphasis on change and learning new practices.

A fourth aspect is that the internationalization of production has been considerably increased by technological and organizational innovation. Improved communication technology, contributes to a changing international division of labour. The use of organizational alliances and international cooperation through strategic alliances has led to the possibility of flexible production systems, just- in -time production, closed supplier and customer relations, steady and incremental product developments and tailored sourcing.

The flexible production system has the potential of contributing to globalization and regionalization simultaneously. Globalization because the multinational firms aim to be present in all major regions of the world economy and a regionalized production is achieved because flexible production systems is one which relies heavily on highly integrated regional production networks (UNCTAD 1994 in Sander 1996). Some of the aspects that characterize international trade are:

### **3.3.1 Global sourcing**

The growing stickiness of market access means that as firms search for ways to strengthen their textile and clothing base, firms have clear differences in the methods and nature of export. It is increasingly organized by powerful buyers, mainly large retailers and branded merchandisers such as Walmart, Gap and Nike, who coordinate chains (Gereffi, 1994, Bair and Gereffi, 2001, Dicken, 1998, Humphrey and Schmitz, 2000). Trade in this phase is called 'sticky' because market access is dependent upon suppliers' entry into increasingly concentrated clothing chains and production networks. After the MFA it is believed access to major markets is more constrained as global buyers structure their sourcing patterns towards highly competent full package suppliers.

These suppliers would have the capability to provide made to order assembly operations but also accommodate variability in design, local and proximate sourcing of high quality fabrics and accessories and handle both small as well as large volume production effectively (Gereffi, 2000, Gibbon 2004, Palpaceur et al 2005, Smith et al 2004).

In this scenario firms cannot hope to compete internationally on the basis of low cost or freer trade alone but on the ability of local suppliers to meet increasingly stringent demands for quality, customization and short lead times, in addition to keeping costs low. Other considerations are the ability to replenish in time, sensitive, quick selling items, making location in supplier choice a key consideration (Abernathy et al 1999, Abernathy, Volpe & Weil, 2004, Nordas 2004, Palpaceur et al 2005).

### **3.3.2 Outsourcing**

This is emerging in the area of product design and development services. The simplest form of this sourcing has been the purchase of intellectual patents or knowledge blocks as components from a services company. The role of R&D is increasing. Firms speak of developing partnerships with third party R&D services for their product development. This is to achieve reduced time to market or to drive down costs of development in a sustained manner. Another approach is to develop a variable cost model for product development. The idea is that the product company will focus on creating a core platform for their products and use the partner to develop custom variants for end customer segments. If the market grows and they need more variants the partners would take care of this and the company need not invest for people for those variants in advance (Imani, 2004).

### **3.3.3 Trends in retailing**

An important trend in the retail practices of the present is the increased use of information technology and systems in the last two decades. Retailers can now



exchange point of sales information- a relatively accurate measure of consumer demand- with their suppliers and accordingly require manufacturers to replenish orders at a faster rate than the past. Manufacturers no longer have the luxury of months or weeks. They are forced to reshape their production planning methods, cost models, inventory practices, production operations and workforce utilization as well as sourcing strategies. These new practices are called lean retailing (Abernathy et al, 2000). The key premise behind lean retailing practices are: provide a variety of desirable products, procure them at low enough cost to make a profit, use information and related technologies to adjust continuously the supply of products offered and try to reduce their own direct product costs and indirect cost of demand uncertainty....the cost of stock outs, mark downs and inventory carrying costs.

### **3.3.4 Moving responsibility to suppliers**

Technology is becoming important to companies that wish to sell into retail channels. Some firms may hardly be able to develop such a system on their own; instead they must find ways to team up with big suppliers as garments are sewn in different parts of the world. Large trading houses based in Hong Kong and Singapore look for progressive manufacturers which can be integrated into the evolving value chain. When buyers and suppliers use IT, it means suppliers must take on new responsibilities. Lean retailing, moving responsibility to suppliers is a strategy. Retailers are under pressure to cut the quantity of goods stocked so that there are fewer items to be sold at reduced prices. This means outsourcing traditional activities like warehousing and stock replenishment. TAL apparel, a shirt maker in Hong Kong (China) has an arrangement with retail giant JC Penney in the United State that shows how manufacturers can provide new services to buyers that go beyond the traditional supplier role.

TAL provides JC penny with related services such as sales forecasting and inventory management. JC Penny stores hold now no extra stock of specific items. This is possible through point of sale data collected directly from their

American stores by TAL, using computer modeling to decide how many shirts to make in what styles, colours and sizes. Tal downloads sales figures from specific stores of JC Penny, determines the ideal inventory level for that brand, style, colour and size, and this is made by a China based factory which ships it to the shop. In fact the retailer is informed how many shirts they have just bought. Benefit to JC Penny is that some functions are done better and cheaply by TAL. For new styles, sales data is analyzed for a month and TAL decides how much to make and in what colors. They manage the entire process from design to ordering yarn, and can thus bring a new style from the testing stage to full retail role out in four months, much faster than JC Penny could do on its own (Hirsch,2006).

In the early days of the industrial revolution, the mechanization of the textile production was one of the methods by which highly industrialized countries of today established themselves. The newly industrializing countries of south East Asia, namely Hong Kong, the Republic of Korea, Taiwan and Singapore used the rapid expansion of their textile manufacturing industries to fast forward their growth (Misra,1992).

Although textiles and apparel are frequently treated as a single industry, there are important economic differences among its component parts. Depending on the end use, the products of the industry are divided into apparel, home furnishings and industrial products. In between these categories, apparel is most labour intensive and large scale production is less important because of the fashion orientation (a bias towards shorter runs).

Based on the end product, the textile complex is divided into the production of fiber, fabric and final products. Fiber may be either synthetic or natural. Natural fabric is cotton or wool. Synthetic may be polyester, nylon, and acrylic, poly propylene which have a chemical base and are produced by large corporations (Grennes, 1989).

The pattern of world trade supports the proposition that low wages are a bigger advantage to apparel producers because of the labour intensive nature of clothing. In 1986 three of the four largest apparel exporters (Hong Kong, South Korea and Taiwan) were developing countries, and China and Turkey also appear among the top 10 (GATT 1987, p.66 cited in Grennes, 1989).

### **3.4 The Multi fiber Agreement**

Sluggish domestic demand in industrial countries which led to stagnant or even declining output and employment accompanied with penetration of the Japanese cotton textile exports increased the pressure of these countries to impose restrictions. The Short term agreement in cotton textiles was reached in 1961 this was followed by the Long term Agreement in 1962. This put a 5% growth limit on import of cotton products into developed countries (Thongpakde & Pupphavesa, 2000).

The upside of these developments was that developing countries like Taiwan and Korea were able to expand their exports to industrial markets rather than their going down. This was because of technology improvements and emergence of manmade fibers. This led to the US starting further negotiations on the MFA in 1973 and it came into effect on Jan 1, 1974. Under the MFA all exports were subject to quota when total exports from an exporting country reach a certain share to total imports in the country of destination (Yang, 1999). In 1985 the International Trade and Clothing Bureaus was formed to seek to end the MFA and return textiles and clothing to normal GATT rules.

It was decided to cede the textile & clothing complex to GATT rules over a ten year period starting from 1995 under the Agreement of Textiles and Clothing (ATC). Under this agreement at the start of each phase, importing countries must integrate a specified volume portion of their imports based on total trade volume in 1990.

A transition safeguard mechanism was also brought up, which can be applied to products not yet integrated into GATT at any stage. This can be brought

up against individual exporting countries if it were demonstrated by importing country that a sharp and substantial increase of imports from individual exporting countries caused serious damage or loss of revenue.

The ATC Agreement called for a gradual phase out of the MFA quotas and an acceleration of the rate of quota growth for quota restricted to the relevant domestic industry (Thongpakde & Pupphavesa, 2000). For products not yet integrated, the quotas for remaining products were phased out in four stages. The first three covered the periods 1995-97; 1998-2001 and 2002-2004 in which the countries needed to integrate sixteen, seventeen and eighteen percent of their trade volumes during 1990 respectively. Forty nine percent of their volumes was left for the last phase of integration beginning January 2005 (Elbehri, 2004).

Parallel to implementation of the ATC agreement, the United States concluded several preferential trading agreements (NAFTA, CBI, Andean, AGOA) which significantly altered trade patterns away from MFA sources into greater bilateral trade with preferential partners in the Americas. This meant that during the quota restriction period, preferential exporters have been able to expand their market shares at the expense of MFA restricted suppliers. The rules of origin has enabled such shifts in trade patterns, favouring a two way trade favouring textile exports by the United States and increasing textile imports (Elbehri, 2004)

Verma (2002) described certain trends that were rife in the years just before the abolition of the MFA and which had an impact on the industry fortunes in the post MFA era. Some of these observations were

- a) Developed countries if not through quotas then through other non tariff based means will exhibit protectionist tendencies. Anti dumping and countervailing actions will be more common after the MFA.

- b) Newer methods of protecting domestic industry were constantly evolving. These may be in the form of labour standards, environmental friendliness or product safety standards. Documentation formalities and rules of origin are some of the ways these are manifested.
- c) Bilateral agreements will be used as eco labeling as a protectionist measure calling on countries which are affected by shifting of production, to promote production based on technologies that reduce water pollution in key production processes.
- d) Many private organizations are entering the market for controlling trends, measurement of ethical measures etc. For such private initiatives, the aim is towards cleansing the global manufacturing and trade of textile and Clothing sectors. Examples are WRAP (Worldwide Responsible Apparel Production and AIP (Apparel Industry Initiative). Factories are rushing to get themselves ethically certified as demanded by retailers.
- e) Intra-Regional trade flows are intensifying while trade between regions fall. NAFTA for example is becoming increasingly inward looking in terms of trade. Trade preferences that the NAFTA gives to Mexican producers will substitute products from Asian region. Non member countries like India stand to lose, more so because India is not a member of any active trade agreements.
- f) Global markets are characterized by stronger retailers, and supplier hubs like India will have to look to follow new rules and tools.

### **3.5 The Indian Textile and Clothing Complex**

The textile industry is very significant to the Indian economy by virtue of its rich history in India, in addition to its dimensions in culture and heritage. It is fair to say that any study of Indian history should include a detailed treatment of textiles in India (Badri Narayan, 2008).

According to the FICCI report (2004) on 'Ending Of Multifiber Agreement And Indian Textile Industry' the industry is said to have a great legacy because it evolved and developed at a very early stage and its manufacturing technology was among the best. This was reinforced by the ancient traders' interest in the Indian fabrics. According to Chou ta Kuan, the Chinese observer, 'preference was given to Indian weaving for its skill and delicacy'.

### **3.5.1 Historical Background**

Textiles have historically formed an important component of India's exports. Marco Polo's records show that Indian textiles used to be exported to china and south East Asia. It was also a significant portion of the Portuguese trade with India (FICCI, 2004).

The textile and apparel sector is the second largest employer after agriculture with more than 35 million persons engaged in it. It contributes 5% to the GDP, 30% to total exports and 20% to industrial production. It remains one of the earliest established industries as well as a major sector responsible for rapid growth of NICs. The backward linkages with agriculture and related activities are well established, through the manufacture of natural fibers, like jute, silk and cotton (Badrinarayan, 2008).

According to FICCI (2008) it has a significant position in the global textile map as it is the third largest producer of cotton and cellulose fibre/yarn, second largest producer of cotton yarn, largest producer of jute, second largest producer of silk and fifth largest producer of synthetic fiber yarn.

Other benefits mentioned are abundant availability of domestic raw materials, well developed network of R&D, design and testing institutes and a growing pool of skilled workers. It has the largest spindleage in the world and nearly one third of the world loomage (excluding handlooms).

Compared to a number of countries which have established their fortunes with the establishment of a flourishing textile industry, the performance of the Indian textile industry, is a study in contrasts. Despite the fact that textiles were one of the first major industries to be established in India it has been among the slowest growing industries. According to Misra (1992) during the period 1956-57 to 1981-82 net value added in textiles grew at 3% per annum against the average of 5.5% per annum for all industry. High incidence of sickness, increasing obsolescence and low levels of modernization were distinct characteristics. From a peak share of 58% of all developing country exports of textiles (including garments and other textile products) in 1953, India's share fell precipitously to a meager 8% by 1969. (Wolf 1982, p.33 cited in Misra (1992).

### **3.5.2 Structure of the Indian Textile Industry**

There is no doubt that one of the factors that has made the fortunes of the Indian textile industry so different from other developing countries is because of the policy framework. A key feature is 'export pessimism', a development paradigm overwhelmingly biased by the small scale, labour intensive manufacture of mass consumption goods, and a state based regulation and controls that was akin to strongly socialistic governments (Misra,1992). It had a complex and widespread web of regulations, which largely originated in the pre independence period, and where interventions in the form of policy statements or textile policy adjustments have played a mitigating role.

Misra (1992) describes five features of the Indian textile sector, mostly consequences of state intervention, which characterize the industry:

- a) A combination of a very broad spectrum of production techniques, from the hand operated to the sophisticated, automated technology, within the same geographical region. This is both complex and unique, with the modern sophisticated mill sector on one hand and the handloom, power loom and hosiery sector on the other. This dualistic manufacturing structure is dominated by the decentralized or

unorganized sector comprising of the handloom, power loom and hosiery sector (FICCI, 2008).

- b) India's position is unique in that it has a presence across the entire value chain, starting from the fiber production, spinning, weaving, knitting processing and garment manufacturing.
- c) The distinct trend towards decentralized small scale manufacture in the unorganized or informal sector, which represented about four fifths of the total cloth output. This has been accompanied by a corresponding decline in the cloth output of the organized mill sector in relative as well as absolute terms.
- d) The sustained predominance of cotton as the primary raw material of the textile industry, accounting for 89% of total fiber consumption as opposed to the world average of 50%.
- e) The existence of a large public sector, comprising nationalized mills and sick private mills taken over by the government which contributes one fifth of total textile production.
- f) A high domestic orientation of the industry with exports playing only a marginal role. This is in contrast with a number of countries in south East Asia which are heavily export oriented.

### **3.5.3 The Evolution of Handloom Industry**

The handloom industry is the second largest provider of employment after agriculture. India has about thirty lakhs of looms. Close to ten crore of people are using handlooms as a source of employment. In 1970-71, the cloth production was 228 crores.

The history of the Indian artisan in the nineteenth and twentieth centuries must begin with textile production (Roy, 1999). It is right to say the history of textiles has a unique significance because of its cosmopolitan nature. It was a mass



consumed good, that no one could do without, and its history is woven into the history of inland trade and patterns of consumption. The percentage of persons employed in the textile industry is still the largest compared to other industries. The Indian textiles have been transformed by exposure to foreign trade and commercialization. Textiles have historiographic significance and it represents a sector that still remains, thriving in some areas, and less successful in others.

Roy (1999) describes cotton textile production in India as an example of a craft threatened by steam powered technology or of pre modern industry threatened by the Industrial revolution or even of Indian livelihood threatened by industrializing Britain. Despite an unequal contest, handloom weaving in India was not wiped out.

It is said that the spinning and weaving of cotton cloth was a part of everyday life in ancient India. From a very early period cotton textiles constituted an important item of trade with Rome and Greece. The Portuguese crowns' interest in boosting the textile trade from India was not borne out of a mere goodwill to regenerate the Indian trade but to serve the interests of the metropolis and her colonies of greater economic importance . These textiles carried from India were used in Portugal, consumed within the country itself, re-export to the ports of Brazil and the African cost, and re-export to the ports of Brazil and the African coast and re-export to other European countries (Stephen, 2008).

### **Diverse weaves, methods and techniques**

The heterogeneous nature of raw materials and additives, and the vast differences in the activity of weaving have led to the diversity in the handloom industry. Commercial hand spinning of cotton was wiped out due to competition from British and Indian machine spun yarn. Many inputs varying from mineral dyes, jari and raw silk were produced in bulk. Between 1900 and 1939 production of cotton cloth expanded by about 30%. Moving from a family oriented business,

new investments were made, urbanization was taken up, and wage labour was utilized in place of family labour (Roy, 1999)

The Fact –Finding Committee report on textiles (1942) described parts of the industry that were doing well and parts that were in depression. Depending upon the final product the weaver could obtain higher or stable incomes as in the case of the jari combined silk sari, or diversify or migrate into a dynamic segment. In other cases there were limits to such a strategy and the weavers had to work harder for less income, or had to leave the trade.

Another aspect was that there were distinct segments not just in terms of the cloth that was produced but in terms of the product, region, cast and community, which was at no point static but dynamic. According to Roy, there were constant changes between segments, overlap of segments, and movements of capital and labour between segments. This segmentation among producers has been explored in detail. It is seen that average standards of living were much higher among silk and fine cotton than in course cotton weaving. The nature of weaving and social status was associated, and it is stated that “parallel to the hierarchy in earnings, there was a hierarchy of earners. There were four major social orders, the services castes, the Muslim weavers of north India, the Hindu cotton weavers and the Hindu silk weavers (Roy, 1999).

The Padmasaliyas was a predominantly Telugu speaking weaver caste. It was the cotton weaving branch of the broader category of Saliyas, and were based in Andhra Pradesh and migrated to the Deccan towns like Sholapur to work in mills and supply capital and labour in the handloom factories in the early twentieth century (Roy, 1999). It was from this caste that weavers were brought into the Kannur region to provide woven fabric for the royalty of the region.

Cotton textile of very high quality were being produced and exported from centers like Kanchipuram, Madurai and Tanjavur. Ramaswamy (2006) describes Sangam classics (first century to sixth century AD) like *Silappadikaram* and

*Manimekalai*. Cotton and silk cloth was exported from the ports of Pumpuhar, also called *Kaveripumpattinam*, and the separate streets for weavers which were called the *karugar vidi or aruvai vidi*.

### **3.5.4 The Reforms Era in the Indian Textiles & Clothing Sector**

It was the textile policy of 1985 that heralded a new beginning for the Indian textile sector that was marred by structural weaknesses and by poor productivity that was neither cyclical nor temporary (FICCI, 2008). At that time the main task before the industry was to increase production of cloth of acceptable quality at reasonable prices. This was believed to be achievable through cost efficiencies and a freer play of market forces rather than through controls and restriction.

The textile policy of 1985 addressed the issue of raw material supply at reasonable prices, progressive reduction of duties on synthetic materials, removal of entry and exit barriers along with emphasis on technology modernization and increasing competitiveness of textiles in the international market. Advantages commonly mentioned as accruing to the Indian textile sector are strong and diverse raw material base, cheap labour, growing domestic market and better technologies than other developing countries (FICCI, 2008).

### **3.5.5 Constraints of the sector**

According to Verma (2002) policy constraints facing firms in the pre MFA era included

- a) Product specific costs – according to Khanna (1991) cited in Verma (2002) materials contributes to 55% of the cost of a garment while fabrication overheads and finishing constitute 22%, 15% and 9% of the cost of the garment. One barrier to higher productivity of textiles lie in the structure of the Indian textile sector. With only 5% of fabric being produced in the organized mills and about 57% being produced in the decentralized power looms (over and above the 17% knit

fabric), the quality of fabric supply for garments is poor. This is compounded by the fact that garment manufacturing is reserved for the SSI. This means they have an advantage to provide small orders, seasonal demand schedules and niche market needs. This leaves out large organized mills from the purview of garment production. Production flexibility, and fashion orientation is required to enable switching from one style or colour to another at short notice. Power looms carry out this function better compared to organized mills.

- b) Factor costs. The high labour intensity means manufacture is taken up increasingly taken by developing countries. However, low wages does not mean greater competitiveness. In fact higher wage levels are taken to represent greater levels of skill productivity and automation. Verma (2002) has indicated a study by Lall(1999) that revealed export firms paying more to their labour than domestic market firms, the reason being attributed to the unique and indispensable skills of designers, pattern makers and craftsmen, as well as the specialized cutting and tailoring skills employed by exporting firms.
- c) The extremely fragmented value chain in India is because of the government's SSI reservation policy. It was strongly biased towards preventing modernization, quality investments, scale adoption and change in product mix. A negative bias to the development of synthetic fibre and MMF fibre based clothing means leaving out large tracts of global markets like Latin America and Asia, which demand synthetic and blended garments. The excise duties on synthetic and blended products is higher than cotton. High customs duties for raw materials in the synthetic sector is in place. This has provided protection against the synthetic sector and prevented product up gradation in cotton based items.

- d) Cost of raw material (fiber) Indian cotton prices have been lower than international cotton prices of comparable varieties due to a ban on imports and control on exports of cotton. This gave advantages to Indian textile and garment exporters. The synthetic fibres were allowed to have a higher price because of the 'luxury fiber' tag. It is seen in the customs duty rates. Import tariffs on cotton were 5.5% but at the same time it was 48.5% for manmade fibers. (ICAC, Textile Outlook International, cited in CII- Roland Berger, 1999).
- e) Issues of supply chain management. The need for functional integration is high when the product lifecycles are short, and where the competitive intensity is high. A synchronized management of the flow of physical goods and associated information from sources to points of consumption enabling delivery of enhanced customer and economic value is supply chain management. The Indian textile and clothing industry has one of the longest and most complex supply chains in the world with close to fifteen intermediaries between farmer and final consumer. This leads to lengthening of lead time as well as adding cost. Verma (2002) states that cotton worth Rs. 100 from farmer to spinning unit, cost inflates to Rs. 148. By the time it reaches the final consumer, it costs Rs. 365. The supply chain in India is extremely fragmented due to government policies and lack of coordination between industries and relevant trade bodies. Competitiveness is directly related to the degree of consolidation.

### **3.5.6 Policy Based Constraints**

Kathuria and Bhardwaj (1998) describe the policy restrictions on growth in the garment industry. It needs to be highlighted that it is based on a system of decentralized production which is related to the problems in labour legislation and exit policy as well as the reservation of the garment and hosiery production for the

small scale sector. The upside is the possibility of subcontracting of labour, the low cost of labour and flexibility of production.

The decentralized system may have contributed to firms not taking up garment production on a large scale. The sewing and cutting operations constitute 21.5% of overall cost, materials contribute 54.5% while finishing and overheads contributed 9 and 15 percent (Khanna, 1991 cited in Kathuria and Bhardwaj 1998). This decentralized structure, with a variable number of fabricators, in subcontracted work has enabled reduction of cost, flexibility of meeting even small orders and creativity of Indian designers in fabric printing. They describe the Indian garment industry as being niche based, focusing on low volume and high variety of output, enabled by flexibility in the system of production. This has however limited the country's ability to enter the mass market, demanding consistent quality across huge volumes of a single item of clothing. Some of the findings of the study centered on the crucial areas to consider in a post MFA setting were:

- a) Abolishing the reservation for small scale industry and allow FDI in the sector.
- b) Including a labour policy to manage labour needs and reductions.
- c) remove the policy bias against synthetic fibers
- d) Policy bias in favour of cotton based products and against MMF needs to be redressed.
- e) Reservation of 22 textile articles for the exclusive production of the handloom sector has been neither enforceable nor beneficial to handloom firms other than becoming an area where corruption is rife. This should be done away with.

Khanna (2002) observed that the in a period from 1973-94 the regulatory mechanisms of the country heavily tilted towards the decentralized subsectors (handlooms and power looms) at the cost of the mill sector. This was seen in the

assistance provided to power loom sector in the form of state protection. The textile policy aimed at regulating distribution of yarn, its production and product prices. It was the yarn distribution scheme of 1972 that specified mills should supply 50% of their yarn production to the decentralized sector at reduced rates. This effectively reduced the ability of mills to improve their performance. It was during the 1985 Textile policy that a change in this regard was brought about. The modernization of the textile sector became a late goal. The Textile modernization fund was started in 1986 by IDBI and the National Renewable fund in 1991.

According to Badri Narayanan (2008) key features of the industry in India include a broad spectrum of production technologies, a distinct trend towards decentralized manufacturing in the informal sector, sustained predominance of cotton, a very huge sick public sector, recent trend of manufacturers adopting modern techniques . A bias towards natural fibres and conventional production is also seen.

At the time preceding the end of the MFA the textile industry contributed about 3% to the GDP, accounted for over 14% of total industrial production and contributed 24% of total exports. It also was the second largest employment provider employing over 38 million people directly and another 50 million indirectly (FICCI, 2008).

### **3.5.7 Adjustments in India's T & C Industry: Emerging Issues and Trends**

In January 2005 all remaining quotas were abolished and the textile and clothing sector became fully integrated into the regulatory framework of the GATT. It is believed that this has led to a substantial consolidation of global supply networks, creating winners and losers. A widely cited study by the WTO uses models based on relative price competitiveness and degree of pre abolition quota restrictiveness face by individual countries to project that China's post MFA share could triple from 16% to as much as 50% after 2005 and India's could quadruple from 4-15% ( Nordas, 2004).

It was believed that poor countries like Bangladesh and Sri Lanka would be hard hit, while India and China would benefit. Even as import quotas would be lifted other protectionist barriers would remain and yet others were expected to be erected. Developed countries charge two to three times more excessive tariffs on garments and textiles than on other manufacturing sector exports (The Hindu, May 6, 2004).

Oxfam GB urged developed countries to cut import duties to 4%. It ranged from 12% to 40% for some categories. Rich countries are still charging excessive tariff rates. They are also able to use non tariff barriers like anti dumping and anti subsidy provisions of the WTO to block competitive imports from developing countries. Many developed countries also abuse the 'rules of origin rules which ensure that imported goods are sourced from the country actually exporting them. This affects countries like Bangladesh which buys most of its fabric and yarns from abroad while manufacturing garments for export.

It was expected that textile exports of India of about \$11 billion would rise to \$20 billion by 2010. This was because it was the only country with an integrated supply chain in the sector. In other words it grows raw cotton and silk as well as produces manmade fibre within the country. Yarn and fabric conversion is also carried out as well as garment production by Indian factories (The Hindu, May 6, 2004).

The author describes that Indian manufacturers must be able to cope with the increased manufacturing of outsourcing of clothing by firms in EU and the US. Assured supply of output, price competitiveness is important. Upgrading of technology is another concern. He suggests that the budget proposal must exempt all new and old capital goods imports from duties must be immediately seized by manufacturers. For small scale manufacturers they need to use the technology up gradation funds of the MOC (the Hindu, September 10, 2004).

If reservation for small scale industry in textiles and clothing continues buyers will only source from established big players who are considered more



reliable and smaller players will be eliminated unless they develop supply linkages with big producers. The issue is will India be in a position to reap the gains. It may be frittered away due to a lack of preparedness (The Hindu, September 10<sup>th</sup>, 2004).

The Union minister of textiles Shhankarsinh Vaghela at that time, said Rs. 60000 crore of investment was needed to meet the increased demand for products. A branding strategy was needed which needed to be facilitated by the government. He expected exports would double after the MFA, and lead to creation of at least two lakh new jobs (The Hindu, October 6, 2004).

In expectation of the MFA ending in Jan 2005 the annual budget planned for the next year was aimed to increase competitiveness. Some of the moves were to free natural fibers from excise duties, strive for greater investments, set higher standards for quality and react faster to global developments. The then union finance minister spoke of a need of scaling up in the garments sector and emphasise on garment production in manmade fibers. In the vision document of that time was a targeted investment of rupees 140000 crores by 2010. Added to this the industry was to try and ensure an export of fifty billion dollars by 2010 instead of forty billion dollars envisaged by the document (The Hindu, Aug 6, 2004).

Union minister P Chidambaram in February 2005 announced a package to make textiles more competitive in the world market. This included substantial enhancement in the allocation for the textile ministry's Technological Up gradation Fund Scheme (TUFS), introduction of a capital subsidy scheme for the processing sector in addition to the normal benefits available under TUFS. The allocation of TUFS was been increased to Rs. 435 crores from Rs.340 crores of last year. Processing units were able to avail themselves of a 10% capital subsidy. A special package announced in the 2005-06 budget proposed to reduce customs duties for manmade fibers, textile fibers yarns and intermediates, fabrics and garments from 29% and that on a large number of textile machineries from 20% to 10%.

According to Commerce and Industry minister Kamal Nath, India in the beginning of 2005 was poised to double its share of foreign trade to reach 1.5 % of world trade by 2009. Towards this goal, the national trade policy of 2004-09 took an integrated approach. India was committed to focus on reducing tariff peaks, high tariffs and tariff escalation of products of export interest to developing countries. India was in negotiations for economic cooperation agreements with various countries and trading blocs for service industries (The Hindu, Feb 4, 2005).

Among the SAARC (South Asian Association for Regional Cooperation) countries, intra SAARC trade remains poor. The reason is because some SAARC countries are intense competitors in global trade because of their similar export baskets. They all look to the West for opportunities and in south Asia intra regional trade is just about six billion, out of the region's global export of 200 billion dollars.

One way for India to overcome this is by bilateral FTAs. They work better than regional agreements because just two parties are involved. The benefits of cost effectiveness when sourcing from neighboring countries rather than the US or Europe, the process of value addition within the region by sourcing raw materials or products from neighbouring countries can also be considered. It must learn from south East Asia and ASEAN (The Hindu, November, 2004).

### **3.5.8 Trends in the Industry post 2005**

In the post 2005 era India's share in the world market has been receding. This is with respect to other industries in the country and with textile industries in other countries. This is evident in the steep fall in share of Indian textiles in the international market and in the total Indian exports (Badri Narayan, 2008).

In examining the trend of export of various textile product groups over the years, during the era of phasing out of textile quotas, it is seen that the shares have been falling in the different textile product groups from 1996-97 to 2005-06.

Phasing out of the MFA quotas has not affected the relative size of textile exports (Badri Narayan, 2008).

There was a great deal of expectation about the export performance of India in the post MFA era, but in value terms textile exports have not increased greatly relative to the value of total exports. Beena (2006) noted that the growth of the textiles and apparel exports by South East Asian countries has been low post 1995, and attributes it to industrial structure related constraints.

Textile exports dipped in the second half of the 2006-07 financial year. It was understood that the appreciation of the rupee was a contributing factor. The government proposed to set up a technology mission on technical textiles to direct the growth of the emerging area in a time bound manner. It would continue with the Integrated Textiles Park Scheme and the Technology Up gradation Fund Scheme for the textile industry.

Policy circles recognized the need for investment, adjust to need for scale and scope, generate efficiencies and engage in ruthless cost cutting. The change must be from a low cost, low value supplier to high volume high value supplier, and to enter into own branding and labels and global footprint. The government was looking to develop proposals for investment, training persons in specific textile related trades and a programme to revitalize handloom cooperatives on the pattern of agricultural cooperatives.

Crucial was the need to set up investment regions in a public-private partnership (PPP) mode with high quality infrastructure and covering the entire value chain. This would help obviate the burdens imposed by multiple levies, high power costs, bottlenecks in shipments and delays in legal clearance (The Hindu, September 7, 2007).

The export community has also suffered the effects of appreciation of the Indian rupee, despite the relief package announced by the Government. Not only was there a steady decline in textile exports but the industry was hurt by the

corresponding depreciation of the US dollar. Most international trade is carried out against the greenback and prices are fixed well in advance for the exports. As a result, the exporting units have also taken a beating on the price front, affecting their profits. The industry attributes the rupee appreciation problem is attributed to the policy of the foreign institutional investors (FIIs). The industry sources called for the need to control rupee appreciation through measures like a minimum lock in period, additional taxation called the Robert Tobin tax on funds bought in by the FIIs (the Hindu, February, 2008).

### **3.6 The Small Scale Sector in relation to T&C**

Das (2005) states that the increased awareness about the organization of productive activities particularly concerning the small and medium enterprises (SMEs) has been a global phenomenon, intensive particularly in the last three decades. Their contribution to economic development has been remarkable. One reason was stated as because of the discernible shift in the nature of demand, that underscored the need for highly customized and hence small batch of production.

The literature on the benefits and dynamics of small firm production was hinged on flexibility and their effects on employment generation, endogenous entrepreneurial growth, regeneration of local economies and local innovative potential, besides earning valuable foreign exchange.

The interest in the role of collectivity or spatial togetherness of firms grew from Alfred Marshall's work. The concept of the 'industrial district' was expanded by him. Coase (1937) cited in Das (2005) expanded on the ability to organize production and reduce transaction costs. Beccatini (1992: 38) reinterpreted the Marshallian definition bringing in the 'socio-territorial' aspect- the role of the community of people and a population of the firm in one naturally and historically bounded area (Das 2005). This was broadened by the concept of the 'industrial district' popularized by Piore and Sabel (1984). The

focus of their studies was the adaptability that was manifested in the technological and organizational domain. This led to the flexible production, flexible manufacturing and automation etc.

New interest has developed in the phenomenon of clustering – why firms group together, for economies of scale, scope, local innovation or upgrading. It was Humphrey and Schmitz (1996) who highlighted the importance of trust, reciprocity and mutualism as the life blood of industrial clusters. They talk about the ‘collective efficiency’ the competitive advantage derived from local external economies and joint action that acted as a catalyst of industrial growth (Schmitz 1995; 530). Porter (2000) described the role of clusters in the global economy and how they were able to contribute to export markets.

### **3.6.1 High Road and Low Road Growth**

A key aspect that differentiates clusters – depending upon their origin, product type market or nature of production is whether they are ‘high road’ or low road’. Low road refers to cases where ‘business dynamism is promoted through investment in ‘efficiency enhancement and innovation’. Pyke and Sengenberger (1992) found this was a characteristic of developed countries. The low road growth is characterized by negative firm strategies like cost cutting through reducing labour income, poor input use, inadequate or no networking, technological stagnation or absence of learning mechanisms. Research by Nadvi and Schmitz (1994) and by Schmitz and Nadvi(1999) show that in developing nations most clusters carry ‘ low road’ characteristics and some a combination of the two.

The small firm and the small firm sector in India have been extensively discussed in the literature, and what is common in these discussion is the variations in the definition of what is ‘small’. It is seen to vary from industry to industry. In many cases it is relatively looked at. Definitions look at the differences in the number of employees, capital investment and the output, the levels of organization, technology, source of power and type and quality of

products. . Small firm terminology includes terms like small-scale, informal, small firms, micro enterprises, small sector and so on. (Gang, 1995). They can be considered as belonging to three subsectors

- a) the traditional village industries including handicrafts
- b) Small unregistered household and non household units not covered by the factories act of 1948.
- c) Registered factories.

### **3.7 Cluster Development**

Targeting of small scale industries through cluster based programmes started with the State Bank of India initiatives in 1989 followed by the Small Industries Bank of India (SIDBI) in 1991. UNIDO started the cluster development programs in four Indian clusters in 1997 (Gupta, 2006).

According to Gupta (2006) the UNIDO initiative introduced a holistic and demand led approach for identification of the problems in a cluster, and introducing interventions that would be implemented through local intermediaries like associations/ networks of SSIs and technical agencies and service providers. Yumi Fujino, UNIDO India representative mentions that in India, despite the fact that various policies and economic incentive schemes exist, SMEs are in general not able to reach the schemes due to their limited capacity for understanding and absorbing such benefits. Policy coherence is absent for SME development at the central and regional levels.

Clusters are considered to be the drivers of the textile sector as about 80% of production in the country is carried out in seventy or so textiles and clothing clusters in the country. There are considered to be thirty nine powerloom clusters and thirteen readymade garment clusters spread across the country. There are pockets of concentration according to the availability of raw materials. They are exported to more than a hundred countries, though the US and the EU account for more than two thirds of India's textile exports. The recession in key markets

pulled down exports over 5% in 2008-09 in key markets, though after the MFA, exports went up to upto 22.13 billion from 13.5 billion dollars in 2003-04 (Chandi, 2010).

### **3.7.1 Clustering As a Rival Theory**

It may be said that the cluster approach can be considered as a rival theory to be considered in the study. Can the benefits that accrue to firms occur because of having a cluster linkage? To examine this, the use of the term clusters is first examined.

The academic literature uses the term 'cluster' in different ways. The definition of Porter (1990) was as a group of firms engaged in similar or related activities in a national economy. The second definition based on Schmitz (1992) emphasizes geographic proximity, defining a cluster as a geographic and sectoral agglomeration of enterprises. The sectoral agglomeration of firms attracts customers, traders, workers with related skills, suppliers of inputs and services and additional producing enterprises trying to benefit from the markets being created. The interactions of many firms may be beneficial and cause existing institutions in the cluster to enhance their participation or promote the creation of new ones (McCormick, 1999). Being in a cluster may encourage firms to share information and engage in learning with other firms. The belief is that over time it may change existing institutions and promote the creation of new ones. A shift from production to trade related aspects, to services or to external markets is also part of this change.

### **3.7.2 Collective Efficiency**

One of the benefits that are said to accrue to firms in clusters itself and not to dispersed firms are related to the advantages of grouping together, called collective efficiency (Schmitz, 1995). This may result because of external economies. This is the unintended or incidental by product of economic action.

It is said to be the passive side of collective efficiency. Four types of external economies are common in enterprise clusters. They are market access, labour market pooling, intermediate input effects and technological spillovers (Marshall 1890, Krugman, 1991, Nadvi and Schmitz 1994, McCormick 1999).

Market access is one of the common aspects of external economies. Similar enterprises in a single location attract buyers from both the immediate vicinity and more distant places. Labour market pooling is the concentration of specialized skills that develop within manufacturing clusters. This skill upgrading happens as a result of both skills getting upgraded within the cluster and new persons who already have relevant skills migrating into the cluster. Technological spillovers refer to the diffusion of technological knowhow and ideas. As firms are in close proximity, they are encouraged to learn from each other and to share ideas. It may lead to the clusters' upgrading and eventual development.

Intermediate input effects are externalities associated with the emergence of specialized suppliers of inputs and services. Suppliers of inputs often arise in the cluster and may be also by specialization taken up by existing firms (McCormick, 1999).

The concept of joint action is the active dimension to collective efficiency (Nadvi 1996). This occurs when firms consciously choose to cooperate and collaborate. This is an outcome of their locating close to each other. Bilateral or multilateral cooperation may exist. Bilateral as in equipment sharing or contract manufacturing, utilizing unused capacity or multilateral as in the emergence of associations or buying groups in order to gain group advantages. Joint action can also be vertical when it is said to be between different members of the production chain. When they are at the same level, like two similar producers or traders it is horizontal.

A discussion paper initiated by the SME Branch of the UNIDO by Humphrey & Schmitz (1995) brought out the importance of clustering in



developing countries and sectors and showed that clustering and networking was beneficial to small and medium sized enterprises to raise their competitiveness. Research in clusters was encouraged when the Industrial districts of Italy in the north east and center and in other regions of Europe were studied for their success despite being small. The works of Piore and Sabel (1984), the ILO (Pyke, Becattini and Sengenberger 1990; Pyke and Sengenberger 1992) presented the success of these regions which had a particular model of development. It was based on the emergence of linkages and cooperation between the SMEs which were enabled to have flexibility and responsiveness because of the economies of scale and scope. The lessons were called the Triple C by Humphrey and Schmitz (1995). This means customer oriented, collective and cumulative. The successful policy actions for SMEs is ensured if these policies are

- a) Driven by the needs of the customer. A customer orientation help them to tackle the key problems of competitiveness and successful interventions should help SMEs learn about the customer needs and obtain technical assistance to help firms meet these needs.
- b) It is directed to groups of firms. This helps to lower the transaction costs than assistance to individual enterprises and it helps generate relationships between enterprises which improve the efficiency through cooperation and mutual learning.
- c) Able to enable the cumulative capacity of the cluster to upgrade and become less dependent on support. Ultimately groups of enterprises should be able to develop processes of improvement deriving from inter firm linkages and contact with the market. This makes policy support redundant over time.

### **3.7.3 Clusters in Global Value Chains**

Oliver, Garrigos and Porta (2008) examine the complex interlinkages between clusters and other external agents, besides the ties which link clusters to

developing country markets, or linkages between clusters in similar activities. The role of multinational enterprise (MNE) affiliates is examined which play a fundamental role of knowledge diffusers and absorbers. The study reveals that though the basic knowledge to successfully complete is locally originated, it is complemented with global knowledge learnt or generated in other territories. It is seen that MNE affiliates bridge structural holes and reduce knowledge asymmetries within global value chains.

Humphrey & Schmitz (2002) describe the link between the upgrading possibilities of firms in industrial clusters, when these clusters are inserted into global value chains. They examine the benefits or outcomes of insertion in terms of the upgrading strategies available to firms. Though the literature on industrial clusters focuses on the role of inter-firm cooperation and local institutions in upgrading, the value chain literature looks at the role of global buyers and chain governance in defining upgrading opportunities. They describe the types of upgrading as process upgrading, product upgrading and functional upgrading. Process upgrading refers to the transformation of inputs into outputs more efficiently, by reorganizing production process or by introducing superior technology. The product upgrading is the entry of firms into new or sophisticated product lines which have greater unit values. Functional upgrading refers to the process by which firms acquire new functions or abandon existing functions to increase the overall skill content of activities. Intersectoral upgrading is also described when firms of clusters move into new productive activities which use similar knowledge or practices. They state that governance as coordination, is based on the specification of the following aspects:

- a) What is to be produced: - specifying the design of products, both in broad conception and detailed specifications?
- b) How it is to be produced: - here firms must define the production process, the technology, the quality standards and the labour or environmental standards specified by firms.

- c) Physical product flow: how much is to be produced, when, and how the flow of product along the chain is to be handled.

Based on the combination of the above two aspects, the types of upgrading and degree of coordination mechanisms incorporated by firms, four types of relationships are distinguished in value chains. These are:

1. The arms length market relations: buyer and supplier do not develop close relationships, because it is a standard product that can be easily customized by non-transaction specific standards. These are usually verifiable by independent certification. Though the supplier has the capability to produce the product the buyer wants, the buyers requirements (including quality, reliability, etc) could be met by a range of firms.
2. Networks: here firms cooperative in information intensive relationships and divide the value chain competencies between them—a reciprocal dependence. Product performance or process standards though specified would be achievable by the supplier.
3. Quasi hierarchies: one firm exercises a high degree of control and specifies characteristics of the product, the processes to be followed and the control mechanisms to be enforced. The lead firm in the chain exercises control not only over its direct suppliers but also down the chain, and this because of the buyers' perceived risk of losses from the supplier's performance failures. This happens in a situation when there is some doubt over the competence of the supply chain.
4. Hierarchy: the firm takes direct ownership over some operations in the chain.
5. One of the conclusions of the study was that insertion in quasi hierarchical chain offers favorable conditions for fast product and process upgrading but hinders functional upgrading. It was observed

that in chains characterized by market based relationships, process and product upgrading was slower, but the upside was that functional upgrading could be better undertaken since the barriers were fewer. The third finding was that firms in networks were most likely to upgrade but were least likely to occur in developing countries because of the high level of complementary competencies required and the corresponding investment it entailed.

Nadvi & Halder (2005) explored the dynamic linkages between clusters through value chains between the economically and socially different countries of Pakistan and Germany. Though the literature recognizes that external linkage for clusters through global value chain ties offers benefits not only in the distribution of physical goods, but also for knowledge flows and innovation, there is less evidence about the local clusters which enter global value chains on the basis of ties between developed and developing country clusters. It looks at the global surgical instrument industry that is linked through ties in Germany and Pakistan-leading production clusters that are able to meet the challenges put forward by global standards, low cost competition and advances in medical technologies. It highlights specific knowledge and production links to illustrate differentiation in each cluster, diverging trajectories and continuing ties.

Laven (2005) examined a related approach of the cluster and value chain theory to upgrading of primary commodities taking the case of the cocoa chain in Ghana. She states that the approaches to upgrading differ in both approaches, with the cluster approach depending on the local level governance by networks of public and private sector institutions facilitating upgrading. They focus on the incremental upgrading and the spread of innovations through clustering of firms and collective action. (Helmsing 2002; Humphrey and Schmitz 2000). The value chain approach considers the global chain governance. She attempts to bridge the research gap about whether local cluster governance and global chain governance reinforce or block each other and which will predominate.

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## THEORETICAL FRAMEWORK OF THE STUDY

### 4.1 The Value Chain as a Tool for Analysis

#### 4.1 The Value Chain as a Tool for Analysis

According to the Handbook for Value Chain Research (Kaplinsky & Morris, 2001: p. 4)

“The *value chain* describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers and final disposal after use.”

This definition focuses on the value chain as a descriptive construct where the firms that carry out specific activities can be singled out and their role in conversion examined by considering how a physical transformation of the product occurred within the purview of these firms. In this activity, the value chain becomes a heuristic framework for the generation of data.

Several researchers have begun to examine how the value chain could be used as a tool for analysis, especially in understanding the distribution of global income or for the identification of effective policy actions to overcome the unequalising tendencies of globalization. The use of the value chain as an analytical construct is enabled by recognition of the three key elements of value chain analysis.

According to Kaplinsky and Morris (2001) three important elements of value chain analysis that enable the concept of the value chain to be used as an analytical tool are:

#### **4.1.1 The value chain is a source of rent**

The concept of rent has been used in relation to economics- as economic rent. Classical economists like Ricardo have emphasized the importance of economic rent which arises from the possession of scarce attributes or on the basis of unequal ownership or access or control over an existing scarce resource.

##### **4.1.1.1 Schumpeterian Rents in Value Chain Research**

According to Kaplinsky and Morris (2000, p.26) this scarcity can be constructed by purposive action and Schumpeter has ascribed an entrepreneurial surplus to accrue to those who create this scarcity. Schumpeter relates this to the action by entrepreneurs to innovate. They create new combinations or conditions which provide greater returns. This greater return is a form of super profit, which encourages other firms to enter the same business seeking to acquire part of this profit. Over a period this benefit is diffused by entry of competitive firms- but till that time the innovation remains a source of surplus.

In short the concept of Schumpeterian rent is integral to value chain analysis because

- a) It arises because of the differential productivity of factors and the creation of scarcity for those factors by firms
- b) It can take various forms within the firm. Sources of rent may arise from the use of unique or specialized technologies, from the use of marketing or organizational capabilities or the human resource capabilities. A similar and preceding strand of literature evolves in the use of 'dynamic capabilities' of Teece , Pisano & Shuen (1997) and 'core competence' approach of Hamel and Prahalad (1990).
- c) Activities taken up between groups of firms are also a source of rent denoted as relational rents.
- d) Sources of rent have become important since the rise of technological intensity and the growth of differentiated products.

- e) As competition increases, more firms may enter into the production of those resources, reducing the profit it can generate. It leads to the generation of consumer surplus in the form of lower prices and/or higher quality.

#### **4.1.1.2 Firm or endogenous rents**

Technological rents relate to the technology related improvements which have been made in firms and which have caused an increase in the output of firms or a betterment of their processes. Firm level enquiry is required for understanding this, together with access to public data sources like newspaper reports which have indicated these improvements as significant.

Human resource capabilities are related to the work practices, the training employed, the skills of the work force, their experience or years of service, and their ability to carry out tasks. Firm level analysis is required to understand its contribution.

Organizational skill becomes a source of rent when it enables lean production, reduction in inventories, and improvement of quality, new product development and lead time. Organizational abilities are also improved by associating with other firms in the chain, rather than within the firm alone. This data needs to be collected by interaction and interviews with firms.

Marketing rents are usually reflected by the presence of brand names, but among developing country producers brands may not be a common occurrence. The use of marketing activities, market promotion measures, marketing expenditures, market development activities need to be explored through firm level interviews and records.

#### **4.1.1.3 Resource Based rents**

These stem from the presence of high yielding deposits and land based mineral accumulations, the presence of specific plantations, or yields of trees or fruits, the presence of specific land or geography based strengths, which are not present in any other region. Data about this is collected at the firm by interviews and through sector based studies or reports related to the region.

#### 4.1.1.4 Relational or Chain Rents

These arise from the development of high quality relationships with suppliers and customers. This may result in improvement in lead times, quality performance, innovations in products, speedy R & D processes, or the development of combined activities, as a synergistic relationship.

#### 4.1.1.5 Exogenous Rents

These arise from three sources. The policy actions within the industry and at state and central level may provide benefits to firms, the effectiveness of policy actions, the design and delivery of incentives etc are termed as policy rents. Infrastructural rents refer to improvement in transport, communications or facilities for business growth provided by state or center, or by partnerships.

Table 4.1 provides a summary of the sources of rent that are significant in the discussion of the firm's value chain linkages.

**Table 4.1: Different Forms of Economic Rent**

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1. Economic rent rises in the case of differential productivity of factors and barriers to entry
2. There are a variety of forms of economic rent prevalent in the global economy: Some are endogenous and are "constructed" by the firm and are classical Schumpeterian rents: <ul style="list-style-type: none"><li>▪ Technology rents – having command over scarce technologies</li><li>▪ Human resource rents – having access to better skills than competitors</li><li>▪ Organizational rents – possessing superior forms of internal organization</li><li>▪ Marketing rents – possessing better marketing capabilities and/or valuable brand names.</li></ul> Other rents are endogenous to the chain, and are constructed by groups of firms <ul style="list-style-type: none"><li>▪ Relational rents – having superior quality relationships with suppliers and customers.</li></ul>
3. But rents can also be exogenous to the chain and arise through the bounty of nature: <ul style="list-style-type: none"><li>▪ Resource rents – access to scarce natural resources</li></ul>
4. Producers can also gain from rents provided by parties external to the chain: <ul style="list-style-type: none"><li>▪ Policy rents – operating in an environment of efficient government; constructing barriers to the entry of competitors</li></ul>

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Adapted from: 'Handbook on Value Chain Analysis' Kaplinsky & Morris (2001),p. 28



**4.1.1.6 Relevant data sources**

An important aspect of the manual for value chain research is that it enables nascent researchers to understand the relevant data sources for obtaining information pertaining to the specific constructs.

**Table 4.2: Data Sources for Specific Types of Rent**

<b>Type of rent</b>	<b>Indicators of rent and barriers to entry</b>	<b>Data sources</b>
<b>Rents constructed by the firm – firm rents</b> Technology	Investment in R& D/ patent related statistics	Firm records; dailies and business periodicals/ websites for national data
Human resources	Skill profile; training	Firm records; ILO and UNESCO yearbooks
Organization	Continuous improvement schemes, inventory and quality performance, lead time	Firm records; published materials and consultancy reports
Marketing	Advertising expenditure, brand performance	Firm records
<b>Rents constructed by the chain</b> Relational rents	Continuous improvement schemes, inventory and quality performance, lead time for the chain	Firm records particularly for firm at apex of the chain.
<b>Resource rents</b>	Yield of mining deposits, coal deposits.	Firm records, UNIDO, FAO and World Bank industry studies
<b>Rents accruing from actions external to chain</b>	Effectiveness of government support; incentives Telecom and roads Financial policies	Comparative firm analysis and policy analysis World bank studies Firm analysis

Source: 'Handbook on Value Chain Analysis' Kaplinksky & Morris (2001), p. 81

### 4.1.2 Value Chains Exhibit Governance

This was a term coined by Gereffi (1994). He used it to describe how the various activities and interactions taken up by firms and between firms were subject to some kind of organization and was not random actions. They were repetitive actions that were organized and following certain rules or specifications which were not taken up of their own accord. They were often set by other, more dominant firms in the chain. This means that specifications or parameters regarding the nature of transactions, the product, process and logistic qualifications are set, which will affect, through consequences, the actors, their roles and functions and the bundles of activities they execute. This is called governance.

An important aspect of global trade is the splitting up or slicing up of the value chain into specific functions carried out in different countries. Firms take up different functions or activities, which they have specific strengths in, or in which they have a differential advantage.

Control or management of these varied activities by actors often located in different countries means that coordination of chains needed to be done. This is usually done by key actors or dominant firms who take responsibility of splitting up of these activities among the various firms which do only some specific part of a set of functions as well as to ensure that the design and quality of final products meets certain prescribed norms. The firms exerting governance in the chain will

- a) Be able to force other firms in the chain to take particular actions. E.g. to allocate assembly operations to firms down the chain, and design functions with themselves.
- b) May be in a position to reject or refuse the demands of other firms in the chain, playing a dominant or controlling role that may have detrimental effects to firms down the chain.

#### 4.1.2.1 Governance In Value Chains

In order to enable analytic dissemination of the construct of governance, three forms of value chain governance are recognized by Kaplinsky and Morris (2001). These three forms can be understood in terms of the *functions* they perform. These functions are described in terms of governmental functions. These are the legislative function, the executive function and the judiciary functions. In the same way governance may be *legislative* (the making or setting of rules), *judicial* (enforcing or ensuring rules) and *executive* (implementing or assisting rule adoption).

Another important aspect is whether these rules or governance measures are exerted by parties ‘internal’ to the chain, or ‘external’ to it. The following figure will clarify these points.

**Table 4.3: Type of Governance by Parties External and Internal to Chain**

<b>Types of governance</b>	<b>Exercised by parties internal to chain</b>	<b>Exercised by parties external to chain</b>
<b>Legislative governance</b>	Setting standards for suppliers in relation to on-time deliveries, frequency of deliveries and quality	Environmental standards Child labour standards
<b>Judicial governance</b>	Monitoring the performance of suppliers in meeting these standards	Monitoring of labour standards by NGOs. Specialized firms monitoring conformance to ISO standards
<b>Executive governance</b>	Supply chain management staff assisting suppliers to meet these standards. Producer clusters/ clubs assisting members to meet these standards Representative agents assisting members to meet these standards	Specialized service providers Government industrial policy support Producer business associations assisting members to meet these standards

Source: ‘Handbook on Value Chain Analysis’ Kaplinsky & Morris (2001), p. 68

#### 4.1.2.2 Types of standards

A second aspect is regarding the types of rules or standards. This may be broadly divided into product based, if concerned with the final or end product that goes to the consumer, or process based. A second aspect is the extent to which they are codified or set in legally enforceable terms with fines or penalties if transgressed. Some rules are codified legally, other rules may be internationally recognized but with no legal basis. A third type of rule may pertain to a region or set of product markets in a geographical space, and a fourth set of rules may be set by firms themselves, to maintain a standard for their operations.

**Table 4.4: Two Sets of Factors Determining Rules and Standards**

<b>Type of standard</b>	<b>Product</b>	Food hygiene standards, lead content in toys	G3 standards for cellular phones	'homologisation of regulations on product types	Firm standards supporting brand name
	<b>Process</b>	Health and safety standards in work	ISO 9000 (Quality) SA 8000 (Labour)	QS 9000, BS 5750	VDA6.1 (VW quality standard)
	<b>Legally codified</b>		<b>Internationally agreed</b>	<b>Regionally specific</b>	<b>Firm specific</b>
	<b>Type of codification</b>				

Source: 'Handbook on Value Chain Analysis' Kaplinksy & Morris (2001), p. 69

The function of legislative governance is to establish a set of terms or rules which must be followed if firms become part of the value chain. The definitions of those various sets of rules determine the basis of participation in value chains termed as 'legislative governance'; or rule setting. The value

chain is described in terms of activities which are usually split up between different firms in different countries. The important aspect of the splitting up of these activities is that they need to be monitored - linked between different actors comprising the links. These products and activities need to be integrated and the design of the components and quality standards with which this integration is achieved are aspects that need coordination. Organizing the logistics between these different points to maintain a national, regional or global set of relationships , as well as ensuring that the smooth flow of operations happen , are important aspects of governance.

In an ongoing relationship it is important to continuously ensure that dynamic opportunities or sources of rent are identified and appropriate barriers to entry for other competing firms are in place to prevent dissipation of the economic surplus accruing from the source of rent: and apportioning roles to key players and ensuring that these roles are taken up and executed efficiently or are also important aspects of concept of governance.

Kaplinsky and Morris (2001) stress that it is not always the case that a single firm alone takes up these roles. In fact there may be a multiplicity of nodal points of governance and coordination functions further, these nodal points of coordination and governance. Further, these nodal points may shift over time as prominence accorded to different firms/actors changes according to the functions or activities they perform.

#### **4.1.2.3 Legislative Governance**

This refers to the basic rules that are established. These define the conditions under which firms can participate. What basic aspects regarding quality of operations they undertake will they meet? Can they meet the rules or standards that are crucial to specific industries? These rules of participation during the 1990s must have been related to price, deliverability and quality. Recently, more firms are judged greatly, on their ability to ‘conform’ or meet established

*international* standards like the ISO 9000 (quality of products), ISO 14000 (environment related), SA 8000 (Labor or social accountability standards) or other industry specific standards e.g. the HACCP (for food industry), Reach standards (for dyes and chemicals) etc.

Supranational bodies like the European Union often set rules which are legally coded and process based rules. Firms which wish to do business with the EU must ascribe to these rules. Certifying agencies like Der Norske Veritas or Bureau Veritas carry out a certification process for producing firms through country specific offices or nodal agencies. They are either direct branches of the international certification bodies or organizations which take up a membership or agency of these certifiers for an ascribed fee. This ensures that the processes followed in the specific suppliers' firms ascribe to the rules specified in the ISO (International Organisation for Standardization). The recertification process which is carried out yearly, across a number of parameters is done to ensure that monitoring of the rules regime is carried out. This may be done by independent certifying firms of a national or international origin. State or country based rules regarding processes, buildings, structures or staff of firms is checked yearly by state or country based agencies. NGOs may independently visit factories and rate them on the basis of their social accountability indicators or fair trade practices.

The setting of rules may be done external to the chain, when it is imposed by bodies, organizations or agencies not directly involved in the chain, or internal when it is set by key links or actors in the chain e.g. a very large and established retailer with a regional or country wide presence, an importer wholesaler who has set specifications from all product vendors regardless of country of origin, etc.

**Table 4.5: Sources of Legislative Governance**

	<b>What to look for</b>	<b>Types of data</b>
<b>External to the chain</b>	Legislative requirements- (e.g. quality standards)  Informal rules promoted by civic associations	Regulations (e.g. on shelf-life; safety standards)  Data on processes in production (e.g. with regard to safety, environment, or labour standards)
<b>Internal to the chain</b>	Rules set by key links in the chain which producers need to attain	Quality standards (e.g. parts per million defects); environmental standards; % on time delivery

Source: Adapted from Kaplinsky and Morris (2001, p.70)

#### **4.1.2.4 Judicial Governance**

The second aspect of governance involves ensuring that the rules that have been set are followed. This is called judicial governance. It involves auditing performance and checking compliance with these rules. The absence of conformity calls for exercising of ‘sanctions’ which is a key function of governance. This means an exclusion from a production network or being blacklisted among buyers or channel members for using unethical practices. In most cases sanctions are less strenuous such as decreasing the number of activities they are required to handle, (thus reducing profit) or imposing cost penalties or monetary fines for not meeting delivery deadlines.

Positive rewards are also meted out when suppliers continuously meet standards or exceed the requirements of producers. A greater role in higher value or distinctive capabilities invite positive sanctions like less stringent auditing or quality checking, reliance on firm standards or greater trust in the relationship.

**Table 4.6: Sources of Judicial Governance**

	<b>What to look for</b>	<b>Monitoring agent</b>
<b>External to the chain</b>	Legislative requirements – e.g. quality standards	Government or regional standards offices
	Informal rules promoted by civic associations	NGOs or the Press
<b>Internal to the chain</b>	Conformance to rules set by key links in the chain which producers need to attain.	Key buying firms in the chain

Source: Adapted from Kaplinsky and Morris,( 2001 p. 70)

#### **4.1.2.5 Executive Governance**

A third aspect of governance is executive governance. This is the process by which firms are assisted to meet standards or specifications. This may be through assistance in meeting standards, helping firms to meet process standards, by providing classes or interactive sessions to learn product or process related performance standards, or by assisting in meeting product standards by personal attention or enabling learning-by-doing, combined investing in supplier facilities etc.

An important aspect of governance is the assistance that producers or suppliers need to be given to be able to meet the standards that their buyers require. In many cases it is seen that the buyer firms may not provide the required quantum of assistance to help firms produce as per buyer standards. This function is seen to be taken up by many other parties. Kaplinsky and Morris, (2001) indicate the following intermediate organizations which take up the role of capability development and skill enhancement of producers. They again, may be part of the particular value chain or external to the chain.



**Table 4.7: Sources of Executive Governance**

	<b>Change agents</b>	<b>Sources of data</b>
<b>External to the chain</b>	Consulting firms	Interviews with consultants, CEO or production control in firms
	Learning networks	CEO or production control in firms; business associations
	Government agents	CEO or production control in firms; interviews with government officers responsible for industrial policy
<b>Internal to the chain</b>	Rule –setting firm	Supply chain management or purchasing function in purchasing firms
	Buying agent of rule setting firm	Interviews with agent and supply chain management firms
	1 <sup>st</sup> tier or other leading suppliers to rule setting firm	Supply chain management or purchasing function in purchasing firms;

Source: Adapted from Kaplinsky and Morris ( 2001, p 72)

In many cases value chains exhibit all three forms of governance and not necessarily by single firms. The rules may be set by one firm and the executive governance or internalizing of these rules may be done by a second firm – very often support firms affiliated to government or private auditors. Similarly the legislative sanctions may be dealt with by a third group of firm. Another aspect has to do with whether governance is exhibited by firms in the chain or firms which are not directly part of the chain. These may be independent organizations, or quality monitoring firms.

### **4.1.3 Typology of the value chain**

There is a distinction between different value chains. Gary Gereffi was the pioneer in the field, with the distinction between producer driven chains and buyer driven chains.

#### 4.1.3.1 Identifying of the type of value chain

Kaplinsky and Morris (2001), in the handbook of value chain research use Gereffi's (1994) distinction between producer-driven commodity chains and buyer-driven commodity chains as a method of classification. It was originally useful to examine whether the critical governing role is played by a key producer at the apex of the chain, or by key buyers. In producer driven chains, key producers have access to vital technologies and play the role of coordinating the various links. In many cases they take up responsibility for assisting the efficiency of both the suppliers and their customers. Buyer driven chains emphasize the role of branded retailers or powerful final buying firms which usually deal with products like footwear, clothing, furniture and toys. These products are dictated by fads or fashion trends and the producers of such products are subjected to the vagaries of market demand with greater frequency. Production of such goods "is carried out by tiered networks of third world contractors that make finished goods for foreign buyers. The specifications are supplied by the large retailers or marketers that order these goods" (Gereffi, 1999b, p.45)

Humphrey and Schmitz (2000, 2002) introduced a typology of chain governance. They observed that certain types of chains were associated with particular types of upgrading. This was based on the premise that global buyers would govern some kinds of relationships more than others. Based on the extent of upgrading that these suppliers were exposed to, four types of relationships evolved between buyers and suppliers. Humphrey and Schmitz' chain topologies are used to distinguish four distinctive types of value chains for the purpose of the study:

- a) *Arms length market relations*: the product being made is standard or easily customized, and a range of firms can make the product. This entails low switching costs for both parties. Buyer and supplier do not need to maintain close relationships and there is limited exchange of information and the use of transaction specific assets.

- b) *Networks*: these are relationships which are information intensive, reciprocally dependent, coordinated and shared. The essential value chain competencies are shared between buyer and supplier. Though product performance standards or process standards to be attained are specified by buyer firms, they are confident that the supplier can meet them.
- c) *Quasi –hierarchy*: one firm exerts a high degree of control over other firms in the chain. This firm specifies the characteristics of the product to be produced and sometimes specifying the processes to be followed and the control mechanisms to be enforced. The firm's increased role in deciding what is produced may be because of its position as a key buyer or because it doubts the competence of the supply chain. It may take up controlling roles further down the chain.
- d) *Hierarchy*: some of the functions down the value chain are taken up by the lead firm and ensures that those activities are carried out. This type of chain is characteristic of the

#### **4.1.4 Upgrading in Value chains**

In the initial discussion on immiserising growth, firms which follow low road growth paths face the danger of intensifying competition if they are unable to identify a source of entrepreneurial surplus. This leads to a 'race to the bottom'. Firms in 'high road growth' on the other hand were able to actively participate in the global economy and sustain income growth.

Kaplinsky and Morris (2001) describe this difference between outcomes and paths caused by the capacity to innovate and to ensure continuous improvement in product and process development. This means that plant and production improvements alone does not guarantee continuous returns but is also hinged on the ability of firms to learn and innovate. (Lundvall, 1992; Nelson and Winter, 1993 cited in Kaplinsky & Morris, 2001).

Innovation per se may not be the only factor that enables firms to earn more but rather, relative to competition, how fast is its rate of innovation. If lower than competitors, it may still lead to decline in value added and lowering of market shares. It may eventually immiserise growth.

This means that innovation – relative to competitors- is what is important. This is called upgrading.

'*Upgrading*' is a concept that has received a lot of attention- in the literature. Kaplinsky and Morris (2001) indicate the core competency approach of Hamel and Prahalad (1990) as an initial school of the thought that focused on firm capabilities- they described a core competency as something which provides value to the customer, are relatively unique and are difficult to copy. This may be because of barriers to entry. The dynamic capabilities of Teece and Pisano (1997) built on the concept of Schumpeterian rents and stated that firm profits cannot be sustained by quasi monopolistic control of the market but through the development of 'dynamic capabilities'. These involve

- *Its internal processes* which facilitate learning, including the capacity to reconfigure or improve on what it has done in the past.
- *Its position-* its access to specific competencies either within its own activities or those derived from the region or state.
- *Its path.* How it is able to adapt to change.

An important limitation to these methods is that they fail to consider the innovative system and out- of- firm factors that may arise from activities involving groups of firms or regions having people or processes with special skills or work abilities.

#### **4.1.4.1 Types of Upgrading**

This aspect is recognized in Humphrey and Schmitz (2003) trajectories of upgrading which considers product and process development as well as the functional changes that occur when new processes are taken up or obsolete

processes are abandoned. Four trajectories of upgrading which firms may take up are:

- a) *Improvements in process*, either within a firm, or as a result of a series of linked actions in the relationships between firms.
- b) *Improvements in product*, either within a firm or as a result of a series of linked actions in the relationships between firms.
- c) *Changing functional positions* by adjusting activities undertaken within a particular link, or moving to activities taking place in other links.
- d) *Moving out of the value chain, into a new value chain* (value chain upgrading)

(from Kaplinsky and Morris 2001, p 76)

#### **4.1.4.2 Sources of Upgrading**

There is a need to analyze both the upgrading practices and the performance outcomes of these practices. It is also necessary to distinguish between the *source and origin* of upgrading. It may originate from within the chain link (firm) or between the chain links. This means that upgrading may happen as a result of the individual activity of a firm or the combined activities of firms or actors in the chain. The Manual has listed the practices that indicate the types of upgrading that may be exhibited by firms in the chain and the performance outcomes of these practices

#### **4.1.4.3 Relevant Data Sources**

In examining the degree of upgrading Kaplinsky and Morris describe the necessity to distinguish between the upgrading practices and the performance outcomes of these practices. The following table (Table 4.7) describes a set of the practices that firms may take up in response to or as an outcome of upgrading practices. The performance indicators are useful because they tell us what these upgrading performances may result in. changes in unit prices and link to market share, though the best indication of value are difficult to obtain from firm analysis, though broad descriptions of the same may be obtained from interview data.

**Table 4.8: Practices and Performance outcomes of upgrading**

<b>Type of upgrading</b>	<b>Practices</b>	<b>Performances</b>
<b>Improving process efficiency</b> <b>Within the chain link</b>	R&D; changes in logistics and quality practices; introducing new machinery	Lower costs; enhanced quality and delivery performance; shorter time to market; improved profitability; enhanced patenting activity
	<b>Between chain links</b> R&D, supply chain management procedures; e-business capabilities; facilitating supply chain learning	Lower final product costs; enhanced final product quality and shorter time to market; improved profitability throughout the value chain; enhanced patenting activity.
<b>Introducing new products or improving existing products</b> <b>Within the chain link</b>	Expansion of design and marketing establishments; establishment or strengthening of new product development cross functional teams;	Percentage of sales coming from new products. Percentage of sales coming from branded goods
	<b>Between chain links</b> Cooperating with suppliers and customers in new product development-concurrent engineering	Number of copyrighted brands Increase in relative unit product prices without sacrificing market share.
<b>Changing the mix of activities</b> <b>Within the chain link</b>	New higher value added chain specific functions absorbed from other links in the chain and/or low value added activities outsourced	Division of labour in the chain. Key functions undertaken in individual links in the chain
	<b>Between the chain links</b> Moving into new links in the chain and /or vacating existing links	Higher profitability; increase in skill and salary profile
<b>Moving into a new value chain</b>	Vacating production in a chain and moving to a new chain; adding activities in a new value chain.	Higher profitability; proportion of sales coming from new and different product areas

Source: Kaplinsky and Morris, (2001, p 77)

#### **4.1.5 Identification of Critical Success Factors in final markets**

Kaplinsky and Morris (2001) regard contemporary markets to have certain characteristics:

- a) They are *segmented*: segmentation by demographic variables, by usage time and frequency, by benefits, by lifestyle, by life stage or by activity is common. Marketing of goods and services is entering an era of ‘microsegmentation’ with different implications of market size and growth, which need to be studied.
- b) Final buyer market *characteristics*: these are called Critical Success Factors (CSFs). They depend on the sophistication of the final buyer markets. Though earlier low price and large volumes used to be important CSFs, discerning customers now demand high quality, product differentiation and branding as CSFs. Increasingly, non price or non tangible success factors are taking center-stage, with aspects like innovation, customization and order variability becoming critical. This puts increasing pressure on producers or suppliers in developing countries and makes demands on their production, organizational and sourcing capabilities.
- c) Segmented markets are also characterized by *volatility*. This means that customers demand changes in the product offerings at a much faster rate. This accounts for increasing the number of selling seasons (from two to four and now to eight), increased frequency of ordering, and more stringent delivery terms, for suppliers.

##### **4.1.5.1 Order winning and order qualifying characteristics**

Kaplinsky and Morris classifies critical success factors into “*order qualifying*” (basic levels of competencies to participate in those segments) and “*order winning*” (factors or competencies that causes firms to excel, or to command a price premium).

They advocate the use of scored responses on a 1-10 or 1-7 rating scale to conduct analysis of CSFs and examine the order winning and order qualifying characteristics. First pilot interviews should be done to understand which the predominant CSFs in a market or region are. Once a common set of factors are identified then respondents should be asked what they feel are critical CSFs in each market segment, by using the same set of factors in different segments it is possible to understand differences between segments.

#### **4.1.5.2 Developing Radar Charts**

A final aspect of CSF analysis is the construction of a radar chart. These are easily developed through the use of Microsoft Excel and it is possible to compare different segments. In the case where many segments could not be simultaneously examined, a triangulation of evidence is possible by getting the CSF scale rated by both supplier firm and buyer so that biases may be ruled out. The CSFs of different firms can then be compared. A possible comparison can be made in two ways.

The first is a comparison between the scored responses of supply firms regarding degree of importance of selected CSFs and their performance on these parameters. There may be few striking differences between these two sets of ratings, except in some aspects the firm may feel it needs a drastic improvement. A second comparison is of the supply firm's own performance rating and the buyer's rating of the supplier performance on these parameters. This is where triangulation can be done so that bias is eliminated.

#### **4.1.5 Aspects of the buying function**

Final product markets are of importance in value chains since they determine the nature of products required from suppliers. Kaplinksy and Morris (2001) describe contemporary production systems being 'market pulled' rather than 'supplier pushed'. Understanding the final product market needs is thus an important aspect of value chain studies.



It is necessary to understand the important market segments which represent the final buyer markets for these firms. This is especially important as in the last quarter of the 20<sup>th</sup> century. Supply capabilities began to exceed demand and consumers became more demanding as competitive pressures increased. Understanding the various segments of buyers will help in mapping of the value chain, which in turn indicates whether the supplier firms are getting a fair share of value generated through the process and product flow.

#### **4.1.5.1 Examining the key buyer segments**

Gereffi's (1999) description of buyer driven chains are relevant especially in the textile and clothing sector. The main leverage in such chains is exercised by retailers, marketers and manufactures through their ability to shape consumption patterns, by virtue of strong brand names, practices and reliance on global sourcing strategies to meet demand.

Among developed countries a pattern of changing specialization is seen among the market based sales establishments. This is especially true for apparel and clothing. Large volume retailers are moving towards greater specialization and increased concentration by product line and store type or price band. Manufacturers who import clothing increasingly face off against retailers. Larger numbers of smaller, less dense retailers are expanding their sourcing of private label or store brand merchandise, cutting off the cost of intermediaries and increasing profits.

Understanding which the major buyer segments are will be useful to understand whether producers are directed towards greater or lesser specialization.

#### **4.1.5.2 Examining the important product groups**

Among product classes or groups, a phenomenon called 'organizational succession' is seen especially among buyer driven chains. This mean upgrading of activities is done by suppliers by moving into more profitable and/or technologically sophisticated capital and skill intensive economic niches. This

may be in the items produced, in the functions taken up within firms, in the inter firm enterprise networks and at the national or regional level (Gereffi, 1999, p 52). Knowing what are the important product groups dominating the firms offering reveals whether the firms have moved from simple assembly to integrated forms of OEM AND OBM production involving a greater use of forward and backward linkages.

#### **4.1.5.3 Examining the major destinations of sales**

The importance of retail destinations is seen when one considers how retailing is undergoing greater concentration in almost all markets. A shift in power is seen from manufacturers to retailers and marketers are seen in most markets with retailers, having their own stores and store brands accounting for greatest revenues. This is also seen across countries. The entry of new regions or countries into a dependence of off shore supply chains is seen across all major markets. This may bode well for the Indian industry as well, and it serves to know which the major destinations of sales are.

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## THE DESIGN OF THE STUDY

<b>C o n t e n t s</b>	<b>5.1</b>	<b>A mixed method research strategy</b>
	<b>5.2</b>	<b>Types of MMR Designs</b>
	<b>5.3</b>	<b>Sequential design issues and strategies:</b>
	<b>5.4</b>	<b>Structure of the sequential exploratory mixed method design.</b>
	<b>5.5</b>	<b>Strand I: Case Study Research Method</b>
	<b>5.6</b>	<b>Case Analysis: Use of Qualitative Data Analysis Techniques</b>
	<b>5.7</b>	<b>Strand II: Descriptive Attitudinal Survey Research</b>

### 5.1 A Mixed Method Research Strategy

Mixed method research - the combination of at least one qualitative and at least one quantitative component in a single research project or program has experienced a tremendous increase in popularity in the social, behavioral and related sciences. Even if not by name, by practice it has enjoyed greater popularity over the lifetime of social sciences than most mono method studies (Bergman, 2008).

Rather than simplistic application of this design, or vague inclusion of one method in a larger study carried out using other methods, what is needed is to take advantage of the benefits of using different methods and integrate approaches. Though by itself, mixed method design may not achieve the elusive goal of providing the final judgment on whether a constructivist approach is superior to a more positivist framework, or identify universal causal laws, one of the positive consequences of the increasing popularity of mixed method design is an increased attention of researchers or theorists to fundamental questions relating to research design and how it connects to research questions, data collection, data analysis and interpretation of findings. It has a positive effect on examining current technical and theoretical limits.

According to Tashakkori and Teddlie (2008, p.101), mixed method research has become the “third methodological movement in the social and behavioural sciences, joining the qualitative and quantitative research alternatives.” This conclusion can be drawn when one examines the multiplicity of texts that have been written in the last decade, on this area (e.g. Brewer and Hunter, 1989; 2006; Creswell, 2003; Creswell and Plano-Clark, 2007; Greene and Caracelli, 1997; Tashakkori and Teddlie, 1998; 2003a) and the concerted thrust to developing a distinct methodological orientation in this area.

They state that although there are countless number of ongoing debates about issues like basic definitions, research designs in mixed methods and inference drawing, surprisingly, the interest generated by this method, has led to the development of a Special Interest Group called the American Educational Research Association on Mixed Methods, and a new journal devoted to the field ‘Journal of Mixed Method Research’ by Sage Publications.

### **5.1.1 Benefits that Result From MMR**

Bryman (2007) describes how epistemological and paradigmatic issues have been examined in trying to combine quantitative and qualitative research. A number of books and articles devoted to outlining components and approaches of mixed method research emerged in the 2000s like Creswell (2003) and Johnson and Onwuegbuzie, (2004). He speaks of the need to justify the use of mixed method research and how authors need to specifically describe *how* mixing, integrating, combining, meshing etc has taken place. Explaining the rationale and outcome of combining approaches is required to increase methodological clarity through which general principles regarding practice and prescription can be honed.

### **5.1.2 Reasons for Using Mixed Methods**

Bryman (2008) has observed that Greene et al (1989) pursuing a context of evaluation research, isolated five justifications for the use of mixed method

research. These were triangulation, complementarities, development, initiation and expansion. Bryman (2008) has extensively reviewed studies classified as ‘mixed method studies’. On review of the methodological writings and research articles employing the same, the following were given as the rationales for doing mixed method research

- a) *Triangulation*- to enable findings or greater validity- combining quantitative and qualitative findings for mutual corroboration.
- b) *Offset*- the strengths or weaknesses of each kind of data (qualitative or quantitative) means that combining them enables weaknesses to be offset.
- c) *Completeness*- the aim is to bring out a more comprehensive account of the area of enquiry by using more than one method.
- d) *Process*- an account of strictures in social life as well as process is described by use of two methods.
- e) *Different research questions*- this can be studied by the use of different research methods.
- f) *Unexpected results*- when one method generates surprising results, these can be explored by employing other methods.
- g) *Instrument development*- qualitative research is employed to develop questionnaire and scale items- which then are used to collect data in a second quantitative phase

### **5.1.3 Specific Outcomes of the Use of MMR**

Tashakkori and Teddlie (2008) using a combination of sources described the purposes of mixed method research as falling under these broad objectives:

**Table 5.1: Purposes for Mixed methods based on several sources**

<b>Purpose</b>	<b>Description</b>
Complementarity	Mixed methods are utilized in order to gain complementary views about the same phenomenon or relationship. Research questions for the two strands of the mixed study address related aspects of the same phenomenon.
Completeness	Mixed method designs are utilized in order to make sure a complete picture of the phenomenon is obtained. The full picture is more meaningful than each of the components.
Developmental	Questions for one strand emerge from the inferences of a previous one (sequential mixed methods), or one strand provides hypothesis to be tested in the next one.
Expansion	Mixed methods are used in order to expand or explain the understanding obtained in a previous strand of a study.
Corroboration/ Confirmation	Mixed methods are used in order to assess the credibility of inferences obtained from one approach (strand). There usually are exploratory and explanatory/ confirmatory questions.
Compensation	Mixed methods enable the researcher to compensate for the weaknesses of one approach by utilizing the other. For example, errors in one type of data would be reduced by the other. (Johnson and Turner, 2003)
Diversity	Mixed methods are used with the hope of obtaining divergent pictures of the same phenomenon. These divergent findings would ideally be compared and contrasted.

Source: Table constructed on the basis of several sources including Greene et al. (1989), Patton (2002), Tashakkori and Teddlie (2003a), Creswell (2003) and Rossman and Wilson (1985) Taken from Tashakkori and Teddlie, ( 2008, p103)

## 5.2 Types of MMR Designs

Creswell and Plano Clark, (2007, ch.5) have discussed four major designs, two of which are conducted concurrently (Triangulation and Embedded) and three that are conducted sequentially (Explanatory, Exploratory and Embedded)

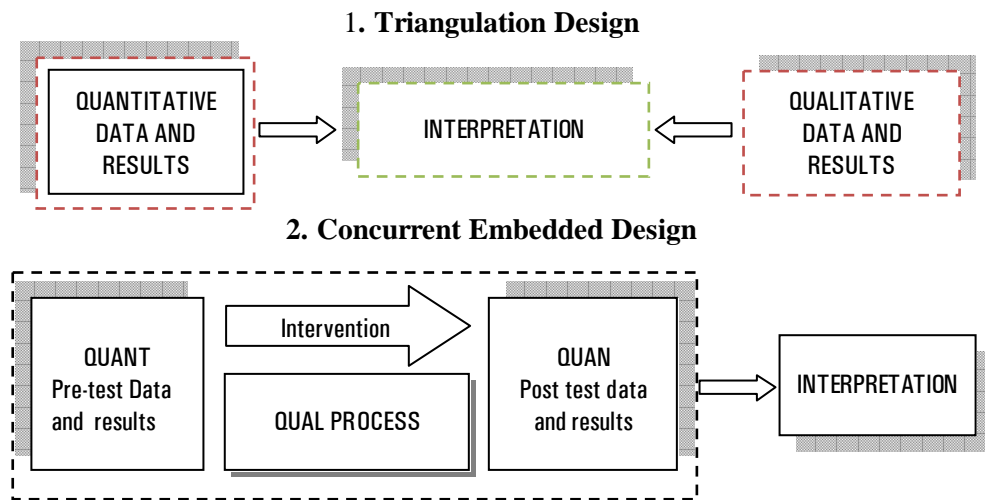


Figure 5.1: Concurrent mixed methods Designs

The triangulation design is a one phase design in which quantitative and qualitative data are collected and analyzed in parallel and merged together to develop a complete understanding or to compare different results. In embedded designs a secondary dataset is taken from another method. E.g. a qualitative component taken in an experimental study.

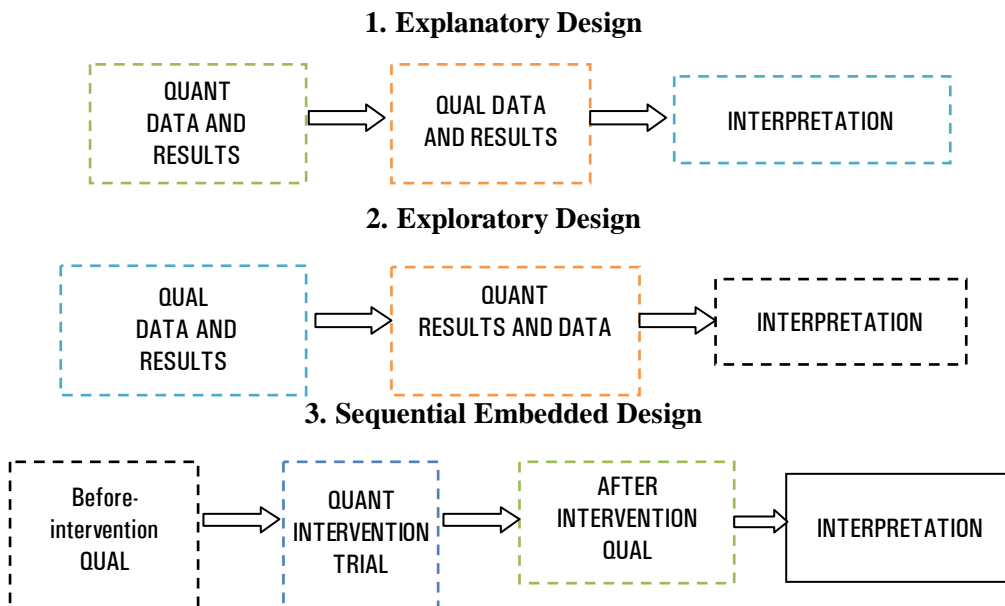


Figure 5.2: Sequential Mixed Method Designs

In sequential designs, the qualitative and quantitative data collection is implemented in different phases and is connected in some way. Explanatory designs start with quantitative methods then follow up with qualitative methods to offer better explanations into phenomena. In sequential exploratory designs, qualitative methods are used to explore the topic and in a second, quantitative phase the initial results are tested or generalized. In embedded designs that are sequential, qualitative data is collected before or after an intervention.

### **5.2.1 Specific Type of MMR Design Used in the Study**

The study uses a *sequential exploratory design* as there were two distinct needs. The topic needed to be explored with the help of qualitative methods and a second quantitative phase was considered as crucial to corroborate the results and complement the study findings. The first phase that was carried out used a qualitative research method that has been well accepted in business and social research. The *case study research method* has been used extensively in social science research – including the traditional disciplines (psychology, sociology, political science, anthropology, history and economics) as well as in practice oriented fields such as urban planning, public administration, public policy, management science, social work and education. For understanding the Kannur home furnishing industry's value chain linkages, it becomes necessary to observe how these linkages operate in reality, as firms trade internationally, and manufacture or source products and activities to meet the needs of developed country markets, and retailers. This need provided the justification to use a case research methodology, for the first qualitative phase or strand of mixed method research, and follow it with a second quantitative phase that *was a descriptive attitudinal survey*.

### **5.2.3 Benefits Sought From the Use of this Design**

The reason for utilizing mixed methods is directly dependent on the purpose for which the mixing of approaches was deemed necessary for the study. In the study, the decision to use mixed methods was decided upon because the research



questions were more exploratory in nature. They were also rigorous. A peripheral understanding that may be obtained by the use of a superficial data collection method like a questionnaire based attitudinal survey alone would not be adequate to understand the constructs in its totality. Besides, the constructs of the value chain, according to the approach of the Value Chain Analysis Manual are best understood using interviews as an appropriate method of data collection.

Understanding the sources of rent, the intensity and sources of governance and the upgrading that occurs in manufacturing firms require a deliberate and detailed interaction with firms. Depth of discussion and exhaustive questioning calls for establishing a rapport with key decision makers or managers in firms and comprehensive interviews.

The researcher felt that this would be achievable through the use of the case study research method to ‘explore’ the research questions. This is in addition to the document analysis and use of reports and already existing printed information, would provide a multifaceted insight into the linkages of the export firms.

It was hoped that the results of a descriptive attitudinal survey of a sample of firms in the study area would help to corroborate the case study results and complement the research endeavor.

### **5.3 Sequential Design Issues and Strategies**

According to Creswell et al (2008), methodological issues in sequential design that need consideration relate to selecting a sample, building results, implementing forms of data collection and resolving contradictions.

#### **5.3.1 Sample Participant Issues**

In sequential designs, an important concern is about whether the same or different participants need to be selected for two phases of the project (quantitative and qualitative). A second aspect is regarding the number of participants in each phase. An agreed upon guideline is that size of the two samples may be unequal-

this is deemed possible because of the objective of the quantitative research is to generalize to a population, while the qualitative phase is to provide an in-depth understanding of a small group of individuals (Creswell & Plano Clark, 2007). Since a direct comparison of samples is not conducted as in concurrent designs, equal sample sizes yields no particular benefit.

### **5.3.2 Criteria for Selection of Participants**

With regard to the use of same or different participants, the intent of the sequential design is the deciding factor. In explanatory sequential designs, where the second phase is to help explain the first phase, then a subset of the participants from the first phase needs to be taken for the second qualitative follow up phase. This has been the strategy in a study of teacher's preparation by Miller et al (1998) and by Way et al (1994) in the study of decision and substance abuse.

In exploratory designs, the individuals in the first stage of data collection are usually different from participants in the second phase. This is because the purpose of the second quantitative phase is to generalize results to a population. In this phase more and varied participants need to be sampled. This strategy has been used by Kulner et al (1999) in their study on information needs of terminally ill patients. Wietzman and Levkoff (2000) used the strategy as well.

A key factor of interest is determining how participants will be selected in second phase of sequential studies. The literature has revealed various options to do this with the key concern being a need to protect anonymity of participants.

In explanatory designs, samples for the second phase can be judged on the basis of significant quantitative results, unexpected non significant results, outliers, extreme cases strong predictor variables, distinguishable demographic characteristics or individuals from different comparison groups.

Way et al (1994) used first phase quantitative survey to select interview participants of the second phase. They belonged to the top ten percent of scores obtained in the first phase. Thorgersen, Ntonmani and Fox (2005) utilized multiple levels of selection, including cluster, self interest and demographic characteristics to enable maximal variation in sample. Baumann (1999) used to the strategy of voluntary participation to include members in the second phase of study.

### **5.3.3 Decision on Results to be used**

An important aspect of multi method research is to determine which results from the qualitative first phase will be used in the second follow up quantitative phase. This is an important concern, if the first phase was to develop an instrument – a questionnaire or schedule to be tested or used as a large sample of a population.

The codes and categories developed as well as the formation of themes and development of an instrument using themes as scaled variables is done (Creswell and Plano Clark, 2007). In exploratory studies this can be used for parts (qualitative and quantitative) of the research.

### **5.3.4 Decision on When to Implement Qualitative Data Collection**

In cases where a largely quantitative intervention design uses qualitative data or quantitative data, in a largely qualitative design, an important issue relates to when to carry out the qualitative data collection. A key directive is to consider purpose for which data is collected.

Donovan et al (2002) in a study of randomized control experimental study on prostate cancer, carried out the qualitative interview before study began. Rogers et al (2003) in a study of anti psychotic medication- tested in a randomized control trial, as two interventions - did qualitative interviews of individuals after the experiment, to examine their perception about the effectiveness of the interventions.

### **5.3.5 Contradictory Findings**

A key concern related to mixed method research is the occurrence of divergent findings between exploratory and explanatory designs. A strategy to deal with it is to identify and discuss divergent results. This may open up new avenues of research. A second strategy is to add an additional phase to the study to deal with discrepancies (Cresswell et al, 2008).

### **5.3.6 Other Design Issues**

Issues like the skills to conduct mixed method research and the length of time to conduct studies are also relevant to the study. It requires that individual researchers have expertise in both quantitative and qualitative research. Shulha and Wilson (2003) describe importance of a team of collaborating researchers. Sequential designs especially require extensive time, as two phases occur one after the other. Creswell (2005) suggests treating two phases differently with an initial large survey being followed by a smaller qualitative phase (three to four interviews). This has been suggested for Masters and PhD students working within a limited time frame. Webb et al (2002) used open ended questionnaire to elicit qualitative responses.

## **5.4 Structure of the Sequential Exploratory Mixed Method Design**

In sequential designs, the qualitative and quantitative data collection is implemented in different phases and is connected in some way. Explanatory designs start with quantitative methods then follow up with qualitative methods to offer better explanations into phenomena. In sequential exploratory designs, qualitative methods are used to explore the topic and in a second, quantitative phase the initial results are tested or generalized. In embedded designs that are sequential, qualitative data is collected before or after an intervention.

### **5.4.1 Strands of the Study**

The reason for utilizing mixed methods is directly dependent on the purpose for which the mixing of approaches was deemed necessary. In the study, the

decision to use mixed methods was decided upon because the research questions were more exploratory in nature. They were also rigorous. A peripheral understanding that may be obtained by the use of a superficial data collection method like a questionnaire based attitudinal survey alone would not be adequate enough to understand the constructs in its totality. The constructs of the value chain, are best understood using interviews as an appropriate method of data collection.

Understanding the sources of rent, the intensity and sources of governance and the upgrading that occurs in manufacturing firms require a deliberate and detailed interaction with firms. Depth of discussion and exhaustive questioning calls for establishing a rapport with key decision makers or managers in firms and comprehensive interviews.

The researcher felt that this would be achievable through the use of the case study research method to ‘explore’ the research questions. This is in addition to the document analysis and use of reports and already existing printed information, would provide a multifaceted insight into the linkages of the export firms.

It was hoped that the results of a descriptive attitudinal survey of a sample of firms in the study area would help to corroborate the case study results and complement the research endeavor.

#### **5.4.1.1 Strand I: Multiple Holistic Case Study Research**

The study uses a sequential exploratory design as there were two distinct needs. The topic needed to be explored with the help of qualitative methods and a second quantitative phase was considered as crucial to corroborate the results and complement the study findings. The first phase that was carried out used a qualitative research method that has been well accepted in business and social research – the case study research method. The case study method has been used extensively in social science research – including the traditional disciplines (psychology, sociology, political science, anthropology, history and economics) as

well as in practice oriented fields such as urban planning, public administration, public policy, management science, social work and education. To understand the Kannur home furnishing clusters' value chain linkages, it becomes necessary to observe how these linkages operate in reality, as firms trade internationally, and produce goods for developed country markets and retailers. This also allowed for the rich description and information intensity that is characteristic of qualitative research. This need provided the justification to use a case research methodology, for the first qualitative phase or strand of mixed method research, and follow it with a second quantitative phase that was a descriptive attitudinal survey.

#### **5.4.1.2 Steps Followed in Case Study Research**

##### **a. *Use of the Case Study Protocol***

Rich description of the phenomena under study was obtained by the development of a case study protocol to aid questioning. The interviews with individual case study firms were conducted with help of the protocol which had a format of questions for each value chain construct, like 'sources of rents', 'governance', 'trust', 'upgrading', etc. The interview notes were further developed by writing up the interview transcripts (descriptions of the interviews).

##### **b. *Isolation of the Codes***

A development of case study databases from analysis of the detailed interview transcripts was done next. This was carried out through interpretation of the interview data by the use of qualitative data analysis (QDA) techniques. This included the processes like tagging or coding the data or relevant phrases or statements related to particular constructs. Aspects that may have an effect on these constructs are also coded. 'Prior codes' are those which are informed by the theoretical framework. 'Emergent codes' represent areas that contribute or have a significant effect on case study outcomes and represent areas that got distilled out of repeated readings of the interview data. Detailed write ups were prepared for each case which became the first part of the case study database.

**c. *Categorization of the Codes***

The apriori codes and emergent codes were analyzed separately for each case study, drawing from the case study interview transcripts. This was called individual case analysis. Categorization of these codes into comprehensive headings or integration of codes into categories or broader areas was done next. This was done to pool together specific lines or phrases in the interview data that contributed to or referred to related areas. The specific interviews from which the information was obtained is also mentioned by the interview code. These related areas were put under common heads called categories. The apriori categories and emergent categories were isolated. Individual case study inferences were developed from examining these categories.

**d. *Cross Case Analysis***

The next step was the analysis of the three cases in tandem through a cross case analysis. Individual case analysis of the three manufacturing export firms was followed by a cross case analysis. The cross case analysis was done to supplement the findings from individual case analysis and to increase reliability of the study, as suggested by Yin (2003a) and Eisenhardt (1989). The data generated under each category for each of the cases was evaluated in the form of a data array to examine the similarities or the differences between cases by highlighting particular aspects. The aim of the cross case analysis was to enable a literal replication, the true objective of case study research. In the absence of similar or complementary evidence a theoretical replication was called for.

**e. *Inferences From Cross Case Analysis***

The cross case analysis was again strengthened by inference building. Inputs from literature were used to provide plausible explanations for specific case outcomes, and the findings were strengthened when all these cases showed similar case outcomes. Cross case inferences were important to strengthen the researcher's claims, and to increase credibility of the case

study findings. Divergent aspects where there was little similarity were further examined to understand why, and to enable theoretical replication.

#### **5.4.1.3 Descriptive Attitudinal Survey as Strand II**

The second strand of the research was the descriptive attitudinal survey of manufacturing export firms. In response to the questions about the reason behind the use of mixed methods, the explanation is: to corroborate research findings, to increase completeness by highlighting different aspects, so that the whole is greater than the sum of its parts. It was also done to complement the case study research findings.

This was especially important as in an Indian context; the mixed method research is still in its infancy and is still in the process of gaining acceptance among social scientists. The use of familiar or more established data collection tools, and the research method it entails, seemed necessary to provide a more complete understanding or picture of the phenomenon under study.

#### **5.4.1.4 Benefits From the Use of the Survey**

The main reason for the use of a survey was to enable a complete picture. The full picture would be more meaningful than each of the components. It was also used for the purpose of corroboration or confirmation. This meant that the results or inferences from one strand must be used to assess the credibility of the inferences from the other strand (Tashakkori and Teddlie, 2008: p 105). They call this aspect '*utilization quality*' or '*pragmatic quality*' of inferences. This means that inferences made at the end of a study are good only if they address the intended purpose of the study.

To increase the acceptability of the survey findings, parametric tests like the t test for small samples means was used. Non parametric tests were further used because of the population of firms itself was small, and the sample, though representing close to sixty five percent of the registered manufacturing firms in the cluster (registered in the Association of the Manufacturer Exporters of Home



furnishings, examined in 2010), consisted of thirty four firms. Since many statistical tests mandate a minimum sample size of thirty, the alternative was to use non parametric tests. The sign test, Wilcoxon's sign rank test, Friedman's ANOVA and Cochran's Q were used to assess different survey results.

## **5.5 Strand I: Case Study Research Method**

According to Yin, (1981 a, 1981b) cited in Yin (2003: p13) the definition is given thus:

A case study is an empirical enquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident.

The case study is one method of doing social science research. Other ways that are suggested include experiments, surveys, histories and archival analysis. What methods can be used depends on

- a) The type of research question
- b) Control an investigator has over actual behavioral events
- c) Focus on contemporary as opposed to historical phenomena.

(Yin 2003, p5)

### **5.5.1 Why Case Studies?**

Using case study for research is a challenging endeavor. Among social sciences, it has been used to contribute to knowledge about individual, group, organizational social political and related phenomena. It has been a common research strategy in psychology, sociology, political science, social work, business and community planning. It has even been used in economics in which structure of a given industry or economy of a city or region may be investigated. (Yin, 2003, p3). Complex social phenomena, personal interactions, contemporary events and day to day work settings retain a holistic and real life context that are characterized by individual life cycles, organizational and managerial processes, changes in life stages and cycles, maturation of industry or international relations,

among others. These require to be understood as a whole, because of the different levels and depths of interactions that occur. This calls for the use of case studies as a research strategy.

### 5.5.2 When to Use Case Study Designs

It is important to understand what would be required if a case study needed to be done. Can an experiment be done instead, or a survey, a historiography? What decides the method? Yin, (2003, p. 5) states that though the broad objectives of exploration, description or explanation can be ascribed to most methods, there may be overlap. It is important to know why a method should be chosen, and this is best described by the presence or absence of three preconditions as described in the table below.

**Table 5.2: Relevant Situations for Different Research strategies**

<b>Strategy</b>	<b>Form of Research Question</b>	<b>Requires control of Behavioural events?</b>	<b>Focuses on Contemporary events?</b>
Experiment	How, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival analysis	Who, what, where, how many, how much?	No	Yes/ No
History	How, why?	No	No
<b>Case Study</b>	<b>How, why?</b>	<b>No</b>	<b>Yes</b>

Source: Yin, 2003 p 8

The three aspects that need to be considered in deciding the research strategy are:

- a) *Type of research question:* Hendrick, Bickman and Rog, (1993) cited in Yin (2003) broadly categorize research questions into; “who”, “what”, “where”, “how” and “why”. Yin (2003) states that “how” and “why”

questions which is more explanatory, point to the use of case studies as research strategy. This is because an emphasis is on the operational links that needs to be traced over time, rather than recording just frequencies or incidence.

- b) *Extent of control* over behavioral events
- c) *Degree of focus* on contemporary as opposed to historical events.

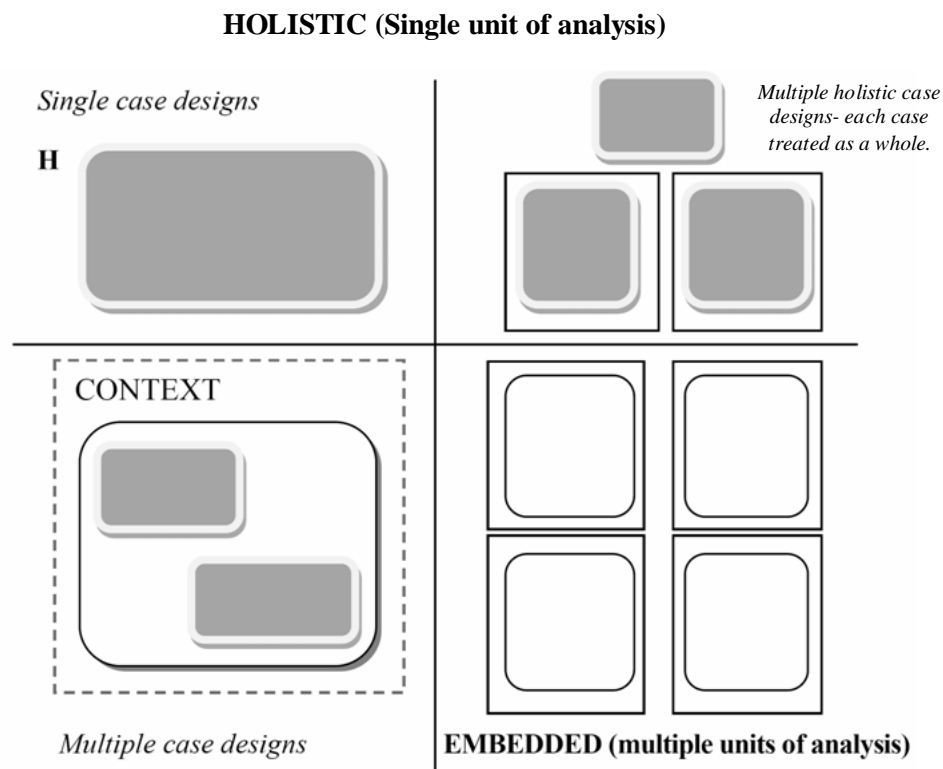
Contemporary events which cannot be manipulated need to be studied by this method. Direct observation of events and interviews of persons involved in events are crucial as a means of obtaining information about phenomena. Case studies need to examine a full variety of evidence - documents artifacts, interviews and observations as the researcher has no control over the phenomena under study. Another aspect highlighted is regarding the nature of the case study enquiry. He emphasizes that because of the multiple variables of interest that exist in a case based enquiry, the study must rely on multiple sources of evidence, with data needing to converge in a triangulating fashion. He also emphasis that a prior development of theoretic propositions is a must to guide data collection and into analysis (Yin, 2003, p 8, 9).

#### **5.5.2.1 Types of Case Study Designs**

Yin (2003) discusses the possibility of four designs based on a 2x2 matrix. The four options available for case studies are single case (holistic) designs (Type 1), single case (embedded) designs (type 2), multiple case (holistic) designs (type 3) and multiple case (embedded) designs (Type 4):

- a) *Single Case Design:* This is useful when the single case represents the critical case in testing a well formulated theory. If a theory has a specified and clear set of propositions and circumstances within which propositions are believed to be true. A single case study can be used to examine whether this holds well or whether an alternate set of explanations may be more relevant.

- b) *Holistic versus embedded case studies*: the same study may involve more than one unit of analyses. This means that though the case study may be about a single organization, within it sub units may be studied, like departments, projects, services, or staff records. These would be embedded units in the case study.



- c) *Holistic design*: If the case was examined in totality, it is called a holistic design. Holistic designs are useful when no logical subunits can be identified or relevant theory being studied is itself of a holistic nature. The entire case study may be conducted at an abstract level lacking any clear measures or data.
- d) *Multiple case designs*: Disciplines of anthropology and political science have developed single and comparative or multiple case studies as separate methodologies (Eckstein, 1975). However, in the

framework developed by Yin, they are considered as variations of the same methodological framework. Here, more than one case is studied here, for its obvious benefits. The evidence from multiple case studies is considered more compelling and this increases the robustness of the study (Herriot and Firestone, 1983, cited in Yin 2003). It may take extensive time and resources. The logic for studying many cases as opposed to one case is to follow 'replication' logic. Multiple cases are considered as multiple experiments. Each case is chosen so that it

- Predicts similar results (a literal replication)
- Predicts contrasting results but for predictable reasons (a theoretical replication)

A sampling logic where more cases would mean extending the findings to the population is not achievable here. What is possible is to examine whether the theoretical framework on the basis of which the case study is done, was observed in all cases chosen. This means that the same theory can be generalized to new cases. This is called a literal replication. If during the course of study the theory appears to need modification as it is not observed in its totality in other cases then a theoretical replication is achieved. A modification needs to be made to the theory.

#### **5.5.2.2 Type of Case Study Design in the Study**

A holistic multiple case design is used in the study, where each case represents a single unit of analysis. The manufacturing export firm of home textiles situated in Kannur district is the unit of analysis. Three manufacturing export firms have been chosen as three separate units of analysis. According to Yin (2003) each individual case study consists of a "whole" study, in which convergent evidence is sought regarding facts and conclusions of the case. For each case study, individual case reports and multiple case results must be reported. A complete picture is obtained if each case individually demonstrates an agreement (or disagreement) with theoretical propositions. What was the prediction about each case and the contrasting results if any?

The research design is described as the logic that links the data to be collected and the conclusions to be drawn, to the initial questions of a study. As in other research methods, case studies also need to be logically placed in the sequence of actions required to fulfill research objectives. Though a complete codification of possible design options for cases have not yet been tackled by many authors, Yin (2003) has suggested that for case studies, five components of a research design are especially important.

- a) A study's questions.
- b) Its propositions if any. Propositions must reflect an important theoretical issue, or gives indications about where to look for evidence.
- c) Its unit of analyses. The logic linking the data to the propositions.
- d) The criteria for interpreting the findings.

### 5.5.2.3 Other Design Issues

In multiple case designs a key issue is how many cases are necessary or sufficient for the study. According to Yin (2003, p. 32) it is “a matter of discretionary, judgmental choice. It can vary from two to three literal replications to five, six or more replications when one wishes to have a high degree of certainty”.

## 5.6 Case Analysis: Use of Qualitative Data Analysis Techniques

### 5.6.1 Research Considerations When Using QDA

Seidel (1998) describes the Qualitative data analysis (QDA) process as having the following characteristics

- *Iterative and progressive*- this is because the cycle keeps repeating. When thinking about things you notice new things in the data. This is then collected and thinks about these things. The process appears as an infinite spiral.
- *Recursive*- it is a recursive process because one part can call you back to a previous part. While collecting information you may simultaneously become aware of new things to collect.

- *Holographic.* The process is holographic in that each step in the process contains the entire process. Mentally collecting and thinking about things occurs when you first notice things.

Baptiste (2001) argues that all QDA (regardless of methodological or disciplinary orientation) comprise four interrelated phases: defining the analysis, classifying data, making connections between data and conveying the message(s). These phases do not occur as discrete sequential hierarchical steps, they are iterative, interactive and non-linear.

He stresses that three sets of considerations need to be taken into consideration during the QDA process. They are a) philosophical b) contextual and c) design.

According to Baptiste (2001), *philosophical considerations* refer to the analysts' systems of values and beliefs concerning the research in general. This also includes the analysts' interests, ideological stance and the theoretical positions regarding the particular issue or issued under investigation. These beliefs, values and interests are fairly stable over time and place, and they form the outer limits of what the particular analyst considers theoretically possible. This also has an effect on how the analysis is conducted by the researcher and how he defines and establishes quantity and credibility in his/her research.

*Design considerations* refer to specific requirements imposed upon the analytical process by the very nature of the research questions themselves. These are dependent on purpose of research. A combination of methods may also be needed. At a conceptual level purpose of research may be divided into broad heads like descriptive, explanatory, exploratory, predictive, participatory, etc. Merton (1967) has opined that at the broadest conceptual level the research is conducted to generate hypothesis or to test them. Different purpose dictates a different method or combination of methods. If the goal of the analysis is to explore and understand a phenomenon in its totality, he needs to use a different combination of methods,

strategies and tactics than if he was primarily concerned with explanations or predictions. Based on the combination of design considerations, philosophical and contextual variations there have evolved a large variety of qualitative research methods. These range from phenomenology, ethnography or grounded theory approaches to hermeneutical analysis, semiotics and narrative analysis.

*Contextual considerations* refer to the situation in which one conducts the research. A limit of time and financial resource could result in a very different analysis than if one had sufficient time, or was not constrained by funding, or academic strictures.

Baptist (2001) has opined that one of the most crucial aspects of QDA analysis is to define the analysis. This deals with how analysts capture record, interpret and convey information. They make decisions on what counts as appropriate and sufficient information and how best to capture record, interpret and convey that information. These decisions begin at the initial conception of the study and proceed through data gathering, reduction and write up. What influences the methods that the researchers use for QDA the most is the ideological and philosophical orientation of the researcher.

### **5.6.2 Research Paradigms Discussed**

The research paradigm refers to the specific cluster of ideological and philosophical assumptions along with accompanying practices (Kuhn, 1970: Lincoln and Guba, 1985, p 15). Paradigms are otherwise called world views – ways of seeing, being and acting in the world.

According to Baptiste (2001) three popular paradigms in qualitative research literature are positivism, interpretivism and constructivism (Denzin and Lincoln, 2000; Lincoln & Guba, 1985; Merriam, 1991, Polkinghorne, 1983). This aspect of the research process is also referred to as considerations of ‘researcher identity’ or role (Crockett, 1973, Lincoln & Guba, 1985, Quigley, 1997; Stake, 1995; cited in Baptiste, 2001). Researchers are guided



by a paradigm (s) and being clear at the outset about one's philosophical or ideological stance improves the quality of one's research. He goes so far to say that in defining our roles as analysts, the entire analysis is defined. To define the analysis, four domains need to be examined: ontology, epistemology, axiology and notions of causality.

### **5.6.3 Philosophical Orientations**

#### **5.6.3.1 Ontology**

This deal with the question: What does the researcher consider as real? This may be defined in terms of tangibility of the phenomenon, its objectivity or accessibility. It may be expressed in terms of clarity of definition or usability or/and object or phenomenon. Researchers need to be wary about how their notions of reality shape what they do as researchers. In the study *an interpreted reflexivity* is adopted. This means the sources of rent, governance and upgrading are interpreted from the detailed discussions with research participants. Since the theoretical meanings of these words may be difficult for lay persons to understand, the physical features, representations or circumstances that conveyed the presence or absence of these constructs were enquired about. These questions were prepared in the case study protocol. Researcher reflexivity needed to be employed to some extent, especially in the development of code words, the emergent codes and expression of the evidence.

#### **5.6.3.2 Epistemology**

This considers the nature, sources and processes of knowledge and knowing. The nature of knowledge is best understood when the researcher makes clear what terms best denote what he seeks to find out or produce. Is it to be classified as knowledge, meaning, truth, information, data etc? Is the researcher's goal to discover the single correct answer? Or is it to produce defensible perspectives?

Regarding the sources of knowledge the important questions would be

- a) What are appropriate sources of knowledge? Are they behaviors that originate from the senses, or are they beliefs, perceptions, intentions, revelations, etc of people?
- b) Is the researcher's own behavior to be considered? Must the study consider the modes and mechanisms of observation and for capturing and storing data?

Regarding processes of knowing the important questions are

- a) Is the researcher's identity completely separate from the research project?
- b) How can the researcher become a pure observer?
- c) If pure observation is not desired how can alternatives be reached ethically.

In the epistemology of this study what is attempted to be studied is knowledge about value chain constructs, *viewed through research participants' own interpretations of the same*, described as their experiences and their information, conveyed as a truth or reality that the research participants believe in. The researcher identifies specific value chain relationships of each case study as unique and individual to each firm. They are conveyed, however, by interpretations of the research respondents of what they believe to be true expressions of the same, and the researcher identity is separate from the research project, taking only the evidence as conveyed by respondent statements and interview transcripts and attempting to classify it using the typology of the value chain framework used by Kaplinsky and Morris (2001).

### 5.6.3.3 Axiology

This deals with values and ethics of research. Three issues that need to be considered are

- a) Place and role of researcher's values in research.
- b) Role of research subjects.
- c) How to use research products.

Values of the researcher may influence the process of doing QDA. He needs to examine whether his own personal values influence his analysis, willfully or otherwise. If he does not wish to keep values from influencing analysis, how will he do so?

A second aspect is regarding the role of research subjects. The important considerations are

- a) Are research subjects informants or participants? Are they objects to be studied or subjects, having an active decision making role in the study.
- b) How involved are the research subjects in the research process?
- c) Since participation of research subjects may be risky, how is their confidentiality answered?

The researcher's identity is kept separate from the study. This is evident on examining the individual case databases. The participation of research subjects was risky since they were involved in disseminating competition intensive information that could be misused. The case study firm identities have been kept confidential by the use of capital letters representing each firm. Individuals within the firm have not been highlighted except for quotes or vignettes. By and large each firm is considered as a whole, as a single unit of analysis, as is characteristic of holistic case studies.

Finally the use of the *outcomes or products* of research is an important issue. The key issues here are will the findings be generalizable to people who were not part of the study? How can readers make sense of the outcomes of the researched products and what are the most important indicators of research quality that are being pursued? Is it meaningfulness, usability (how beneficial), generalizability, objectivity, reliability, prestige etc?

The outcome of this research hopes to claim generalizability to other firms in the cluster, to the region and to similar export oriented industries through the adoption of a data triangulation (interviews and documents and literature), method

triangulation (case study and survey research) and theory triangulation (value chain approach vs. the cluster approach). Such intensive triangulation besides increasing the reliability of the claims, improves the validity of the results. The outcome can be used to systematically examine the chain structures of other agglomerations or manufacturing export industry in India, and adjudge their growth paths as evidenced by their sources of rent, types of governance and sources and effects of upgrading.

#### **5.6.3.4 Causality**

This is an integral part of any research paradigm. The purpose of a research effort is often to examine association between ideas, people and /or events. They may be expressed as causes, influences, determination, contributions, and effects and so on, it is important for the researcher to consider the following.

- a) What crucial associations or relationships do I observe?
- b) How are they described- cause, influence, contribution, shaping.
- c) How is causality defined, and how is demonstrated?

The causality in the study may be difficult to establish considering that three case studies alone does not ensure replicability of the findings, and the survey evidence is based on small sample sizes. The constructs can contribute to an influencing or a shaping of the value chain relationship, though establishing relationships in terms of dependent, independent and intervening variables may be difficult given the abstract nature of these constructs.

### **5.7 Strand II: Descriptive Attitudinal Survey Research**

The study followed sequential exploratory mixed method research design, with an initial qualitative phase and a later, quantitative phase that attempted to corroborate or strengthen the initial study findings.

#### **5.7.1 Sampling Frame Used for the Study**

The second strand of the study was a descriptive attitudinal survey carried out among the manufacturer exporters of the region. The firms which were part of

the case study were excluded. The sampling frame that was referred to was the list of the Kannur Textile Exporters Association (KTEO) which had a list of 34 firms in its purview. 31 firms were considered as the population for the survey, leaving out the case study firms and out of this a sample size of 20 firms was considered as appropriate considering the initial low number of firms.

### **5.7.2 Development of the Research Instrument**

A schedule of closed ended questions was prepared initially in consultation with the industry experts and the various interviewees the researcher had access to. This was to ensure that it contained significant aspects of the trade in home textiles as well as coverage of the regional and within cluster issues that may have been significant. The value chain framework of sample firms was sought to be examined for the survey firms by including questions about the key success factors, the important product categories, the segments that they were targeting, the countries or destinations that the products were sent to and potential growth plans. It sought to examine the nature of the relationship that the firms had with their buyers by including questions about the upgrading that they undertook, whether in product, process or function, the governance exerted on these firms by controlling firms and their sources as well as the trust between firms expressed as a measure of activities they undertook, the communication methods, the terms of trade and length of relationship. Ultimately, the sample firm was taken through the process of examining the nature of the value chain that existed with its key buyers, by using McCormick's (2001) key identifiers, described in the "Manual for value chain Research on Homeworkers in the Garment Industry".

### **5.7.3 Sampling Procedure**

Data collection was by personal interview using the schedule of questions and obtaining their answers or choices during the interview itself. A duplicate copy of the questions and alternatives was first given to the respondent so that the purpose of the study could be made clear and their approval for partaking in the study ensured. No respondent expressed an unwillingness or disapproval to participate, though they

were curious to know from where their address was identified. The researcher made it clear that case studies were being conducted at three firms within the region. Most of the survey participants felt that these firms were significant in terms of the information they could provide about the nature and problems of the industry and were uncertain about whether their answers could add any more value.

#### **5.7.4 Use of the Attitudinal Survey**

The second strand of the research was the descriptive attitudinal survey of manufacturing export firms.

In response to the questions about the reason behind the use of mixed methods, the explanation is: to corroborate research findings, to increase completeness by highlighting different aspects, so that the whole is greater than the sum of its parts. It was also done to complement the case study research findings.

This was especially important as in an Indian context; the mixed method research is still in its infancy and is still in the process of gaining acceptance among social scientists. The use of familiar or more established data collection tools, and the research method it entails, seemed necessary to provide a more complete understanding or picture of the phenomenon under study. The full picture would be more meaningful than each of the components. It was also used for the purpose of corroboration or confirmation. This meant that the results or inferences from one strand must be used to assess the credibility of the inferences from the other strand (Tashakkori and Teddlie; 2008, p102). They call this aspect '*utilization quality*' or '*pragmatic quality*'- of inferences. This means that inferences made at the end of a study are good only if they address the intended purpose of the study.

#### **5.7.5 Study areas covered in the Survey**

The descriptive survey was done by using an interview schedule.

An initial set of frequency tables and importance rating scales were obtained from analysis of the questionnaire data. The firm related data was

generated for twenty sample firms and specific questions that would complement case study evidence were asked. These related to the following aspects:

- a) An analysis of initial factors affecting firm success grouped under the heads of firm, buyer, product and government. The aim was to understand the areas that were important in the initiation of export. What drove exports from the region? Was the role of government support significant? The role of private associations like exporter's association- the buyer's own standards or whether firm's owners or their predecessors directly accessed markets.
- b) An importance rating of present factors affecting firm success that was beneficial for exports. This was to observe the differences in the nature of factors in the initial period and at present. Was there a shift in the importance of factors from the presence of a physical infrastructure or facility to the organization of production process? Were there changes in technology or in importance of product categories? The purpose of this was to relate it to the sources of rent.
- c) The initial and present product categories were contrasted to examine whether additional or value added product categories were taken up and to what extent. This would provide additional evidence about upgrading of products. The sources of upgrading and the sources of rents or firm capabilities that made this possible were examined. This was supplemented with evidence about the importance of product categories to firm revenues at the time of the survey (2010).
- d) The sources and effects of governance expressed in the form of product and/or process standards, the methods by which these were enforced and how firms met these standards were examined. The aim was to observe whether survey evidence would corroborate case study evidence.

- e) The origin or source of upgrading, whether within export firms themselves or as a result of their interaction with other value chain firms needed to be known. The upgrading in respect of product, process, and function was examined. The importance of upgrading related activities was assessed to observe whether this was supported by case study evidence.
- f) The sources of fabric manufacturing were examined to know whether the multiple manufacturing strategies seen among the case study firms, using a variety of sources, and varied methods of production were being followed among survey firms as well.
- g) The preferred buyer segments that were ranked in order of their contribution to firm revenues, was examined. These ranged on the continuum from value based or mass market retailers to individual boutiques.
- h) The key countries or regions of export were also assessed for survey firms.
- i) The nature of the relationship with their most valuable customer group (in revenue terms) was assessed by providing the distinguishing characteristics of each type of relationship. The guidelines for this were taken from McCormick's (2001) manual for home workers. Survey firms could understand what the nature of their relationship was by examining the distinguishing aspects and evaluating what the relationship type was. This exercise was done in consideration of their most important customer group, in revenue terms. Sometimes two options were checked.
- j) In obtaining answers for the interview schedule the respondents were first handed over duplicates of the schedule but ticking or crossing off of the options was done by researcher to enable immediate collection



and to reduce their tedium. Any clarifications asked by respondents about the questions were cleared by researcher. The schedule was also supplemented by face to face discussions, experience sharing of insights of the exporters and making comparisons of their earlier business scenarios with the present.

### **5.7.6 Ensuring Reliability of the Research Design**

Yin suggests that specific tactics can be used to increase reliability of the case study. The construct validity can be increased by using multiple sources of evidence and by having key informants review drafts of the case study report. This was carried out. The external validity can be improved by using a theoretical framework for case analysis and use replication logic, in multiple case studies. Reliability is improved by the use of a case study protocol and by developing the case study database.

### **5.7.7 Statistical Techniques Used in the Study**

Inferential statistics deal with drawing conclusions and inferences about the population based on the sample data collected from that population. The benefit of inferential statistics is that it is inductive in approach and it helps in making conclusions about the entire group or population (Israel, 2009).

In keeping with the exploratory nature of the research questions in the study making associations or relating different variables that were isolated from the survey questions was a short sighted tactic. Though value chain studies have established linkages between upgrading in firms and governance type as well as between type of chain and the nature of governance exerted by lead firms in such firms, to be able to examine whether such associations exist from sample data seemed too ambitious. This association was revealed from the individual case study analysis, the cross case research and the inference building exercise but to establish such association between variables relate to upgrading, rent or CSFs (critical success factors) in the survey was not done.

The main reasons were:

- a) The small sample size: A sample of twenty firms was selected by snowball sampling method from thirty one firms in the surveyed district of Kannur. Twenty firms were surveyed for sources of rent, governance and upgrading as well as key success factors, major markets, targeted segments and certain other demographic and value chain related aspects.
- b) Non standardized tools of data collection were used for conducting the survey as there were few studies of value chains that had used survey tools. Most value chain studies have been done through the use of interview data or production figures at firm level or cluster level to understand the change in value.

#### **5.7.7.1 Choice of Statistical Tests**

##### ***Use of t Test for Small Samples***

The t test for small sample means was a parametric test that was used to examine certain aspects of the survey data especially related to the initial and present factors instrumental in firm success. This is a test that can be used for sample sizes less than 30. Since the sample of firms had a size of 20 it was possible to use this test to examine the significance of certain hypotheses.

Two approaches to data analysis are the parametric and the non parametric approaches. Techniques involving the use of parametric tests make assumptions about the population from which sample data is obtained. The assumptions involve random selection of the sample from the population, symmetrical distribution of scores, having a sample size greater than 30 and variables measured on an interval/ratio scale.

In the case of data that does not meet the assumptions about the population – normal distribution and randomness, parametric testing cannot be done. This is

also true when the level of data being measured is qualitative or when the sample size is small.

In such cases Israel (2008) suggests the use of statistical tools for which rigid assumptions need not be harboured. These are called non-parametric or distribution free techniques. This is useful in small sample testing because they do not have any assumptions about the population from which the samples are drawn.

These are called distribution free statistics because they can be used regardless of the shape of the population distribution. Another advantage is that a number of nonparametric tests can be used with nominal or ordinal data too. Nominal data scaling refers to the method that just categorizes cases or objects into different groups. The numbering system is just labels denoting different groups.

In the case of ordinal scale of measurement there is an arrangement in a hierarchical order, or having some ranking with regard to level of importance, level of intensity or level of use.

In short, advantages of non parametric statistics are the following:

- a) There is no parametric alternative in the use of non parametric statistics like measuring association between two nominal scaled variables or ordinal scale variables.
- b) The computations of non parametric statistics are usually less complicated than those for parametric statistics particularly for small samples.
- c) The significance of many nonparametric statistics can be tested as they have theoretical distributions of their own, hence inferences can be made.

#### ***Use of Non Parametric Tests***

The relevance of process or product upgrading as well as data about the governance- legislative, executive and judicial, could be strengthened by the use

of non parametric tests that examines the scores given by the sample to different variables. These variables may relate to different sources or types of upgrading, the different sources of governances or the importance of success factors related to performance of the firm.

Why was non parametric statistical testing of results considered necessary? The main aim was to alleviate the researcher bias which may have been expressed during case study research and to increase reliability of results obtained from survey research. The justification for the findings of the mixed method study will be increased by the use of statistical testing. Non parametric tests lend themselves to qualitative research ideally because many qualitative research variables are measured on nominal or ordinal scales.

This premise was used in the selection of two related sample tests of non parametric nature to examine the significance of scores given to aspects of upgrading, governance or success factors. The tests used in this regard were

- a) Sign Test For Matched Pairs
- b) Wilcoxon's Sign Test For Matched Pairs
- c) Friedman's Two Way ANOVA
- d) Cochran's Q

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## ANALYSIS OF STRAND I: CASE STUDY RESEARCH

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Yin (2003) stressed that any study should frame the analysis based on the audience of the study. The complete report should identify a specific audience and the needs of this audience.

A multiple case study research will require the presentation of a multiple case report. This may be in the form of multiple narratives usually presented as separate chapters or sections about each of the cases singly. It should also contain a section covering cross case analysis. In some cases the bulk of the main report contains the cross case analysis. In this study the individual case reports are followed by the cross case analysis.

### 6.1 Structure of the Analysis of Case Data

Yin (2003) describes the rationale for using case study research as part of larger multi-method studies. Though he promotes the use of case studies by itself as four possible research designs, he acknowledges that sometimes larger studies encompass the case study. The larger study will contain the completed case study but should also report separately the findings about the data from other methods. The larger study's overall report would be based on the pattern of evidence from both the case study and other methods.

He talks about three different reasons that may have motivated a larger study to use multiple methods. Firstly it may simply to determine whether converging evidence may be obtained even though different methods have been used (Datta, 1997 cited in Yin, 1995). In this scenario, both parts of the study have the same initial research questions, but the researcher must conduct, analyze and report the case study independently. An outcome of this approach would be to compare case study results with those based on the other methods.

A second objective may be the fulfillment of complementary questions that are to be addressed by different methods. In this case the case study part is used to gain insight into causal processes whereas surveys provide an indication of the prevalence of a phenomenon. As the objective is to reveal complementarities, case study questions are likely to be closely coordinated with those of other methods, and not exactly the same. The complementary enquiries may happen simultaneously or sequentially but the initial analysis and report of case material should ideally be conducted independently (even if the final analysis may merge findings from all different methods).

### **6.1.1 Process of Case Study Analysis**

Keeping these possible objectives in mind, the analysis of this mixed method study is framed around two strands. The first strand is a multiple holistic case study where three cases have been examined and the research objectives studied by use of a case study protocol. This is a detailed document that specifies different aspects of the cases, the areas which are examined in depth, the detail of questions which needs to be asked to the interview respondents and the limits of the study.

#### **6.1.1.1 Development of the Interview Transcripts**

Detailed case study interviews were conducted for each case separately, and each interview lasted 2-3 hours. Roughly twelve interviews were conducted at each case site of two and a half to three hours each. The rough note taking during the time of the interview was converted into interview transcripts. This was the

description of the answers provided by the respondents. Sometimes there was a description of other key areas or aspects which were of importance to the industry, or to the firm which was described or expressed in detail. These were all described in the transcript of the interview, in the form of a reported account. It included an account of the conversation or interview that sought to bring out the respondents' responses. The transcript, which is a description of reality the way the respondent sees it, does not bring out any impressions of the researcher, or his/her understanding of the respondents' answers. It strictly conveys the respondent's verbal answers or his feelings or representation of facts or incidents. The questions asked were by and large informed by theory. The value chain framework of Kaplinsky and Morris (2001) was the typology used to develop the case study protocol and each of the aspects that are questioned is assessed and answers given the way the respondent understands it to be. It conveys a perspective that is distanced from the researcher's own.

#### **6.1.1.2 Interpretation of the Interview Transcripts**

In the next stage of the qualitative data analysis process, the interpretation of the interview was considered. This is in essence the researcher's impression or perception of the respondent's reality and it is in this interpretive stage that the qualitative data analysis techniques are used. Interpretation of the transcripts is carried out through a process of 'collecting, noticing and thinking' as described by Seidel (1998). Data analysis as described by him is an ongoing and iterative and often non linear process. He calls it an interim analysis and it is a cyclical process of collecting and analyzing data. The actual process of analysis involves reading of the interview transcripts line by line.

#### **6.1.1.3 Coding of Interview Transcripts**

Each line is then analyzed for meaning and data is divided into meaningful analytical units, which relate to a theoretical construct being explored by the researcher, or give the researcher insights into other related aspects of the study,

that have been mentioned by respondents. These meaningful segments or units are then *coded*.

Coding refers to the process by which the researcher marks segments of data with symbols, descriptive words or category names. When a meaningful segment of text is identified or isolated, a code should be assigned to it. The end result of this exercise is that all data or sentences will be coded with a particular idea or concept. It may be particular ideas or descriptive words or category names. Baptiste (2001) refers to this second phase as *classifying data*. According to him it involves two major aspects:

- 1) *Tagging data*: searching from the amorphous body of material, bits and pieces that satisfy the researcher's curiosity and help support the purpose of the study.
- 2) *Labeling the data*: assigning some distinguishing mark to selected data. This is an aspect of tagging. Labels may come from the data or may be imposed from outside. Labels may be heuristic or descriptive devices that help understanding of the data better. Labels may be images, numbers, words, phrases or themes. Labeling is also called coding by other qualitative researchers. The codes or labels represent data with similar characteristics are placed in the same group or category. A category is a set of objects or statements with similar characteristics. It is called a class. Categories that are developed from the data may be mutually exclusive or overlapping, exhaustive or incomplete.

The method of 'constant comparison' developed by Glaser and Strauss (1967) is used to examine the transcripts and based on the researcher identity and theoretical sensitivity, he constantly compares the data. This means he examines each sentence or phase in the transcript- whether to discard, discount, narrow down, expand, split, join or transfer.



Coding then is the identification of key areas, phrases, paragraphs, aspects or ideas that emerge from the data. Codes may be initially decided, when the study is informed by theory, or is framed according to a theoretical proposition or framework, or alternatively it may emerge from the data. The initial reading of the interview transcripts result in the meaningful phrases or sentences, or ideas being allocated or tagged to particular codes. At the end of the initial reading a master list of codes emerge, which are constantly examined and reworded (if necessary) which are used in the research study. Seidel (1989) describes that this classification appropriates four tasks that are intellectual in its origin. These are tagging, labeling, defining and refining.

#### **6.1.1.4 Types of Codes**

As a result of the coding process, data with similar characteristics are placed in the same group or category. Similar codes or codes which may refer to the same area may be put in a single category. A category is defined as a set of objects or events with similar characteristics. It is otherwise called a 'class'. *Apriori* codes are categories or coding systems developed before examining the data, or codes which are developed on the basis of the theoretical framework or base. These are codes that represent areas or aspects of the theory. As the case studies are informed by theory or based on theory, a set of prior codes exist which will record evidence of the same as revealed in the transcripts.

*Inductive* codes are developed or formed as the data is examined, or read. Specific areas or domains emerge which have a bearing on the outcomes or which influence a situation or set of factors or individuals. These become inductive or emergent codes.

*Co occurring codes* partially or completely overlap. This means that the same lines or segments of text have more than one code attached to them. The lines or statements from the data may refer to different aspects or viewpoints of both these codes and hence may be mentioned under both.

A fourth type of code applies to the overall protocol or transcript that is being coded. This means that document or related account speaks of a particular area or aspect of the study. These are called *face sheet* codes.

#### **6.1.1.5 Development of Researcher Memos**

Memoing is an integral part of interim analysis where the researcher encodes or records reflexive notes about what is being studied. The researcher should record memos when he wants to record what he is learning or when he has ideas or insights about certain statements or incidents that transcribed during the interview. It may be included as additional data to be analyzed.

#### **6.1.2 Identification of Codes from Case Data**

A preliminary reading of the interview transcripts of the interviews was carried out in an attempt to follow the designated steps of qualitative data analysis within the framework of case study research. The interview transcripts were prepared from the field notes, and day journal of the researcher.

The following codes were identified as relevant to the analysis, from a preliminary read-through of the interviews. As interviews were read over, similar areas of discussion emerged, where the same code was affixed or new aspects of the study emerged that were deemed important to the overall discussion, and which could have a bearing on the outcome of the research process. The codes that emerged from preliminary review of interview transcripts listed in no particular order are:

- 1) Seasonality of home textiles
- 2) Nature of furnishing industry.
- 3) Increasing value added through manufacture of made ups
- 4) Inter cluster tie ups for production and finishing
- 5) International competitors
- 6) Role of private enterprises in export

- 7) Role of cooperatives in export
- 8) Government schemes for promotion of weavers
- 9) Government promoted value enhancement activities
- 10) Effect of raw material prices
- 11) Manufacture versus merchant exporters
- 12) Home textile USPs (unique selling propositions)
- 13) Nature of demand for handloom
- 14) Effect of Multifiber Agreement on home textiles products
- 15) Quality certifications insisted by buyer
- 16) Inherent weaknesses of within-cluster processing
- 17) Export competitiveness after the Multifiber agreement
- 18) Demand fluctuation effects on home textile industry
- 19) Home furnishing product categories/classes of importance
- 20) Role of buying intermediaries in market development
- 21) Certifications of government bodies
- 22) Global fashion trends/changes
- 23) Inherent strengths of Kannur based weaving
- 24) Policy imperatives of the government
- 25) Institutional support within the cluster
- 26) Institution-industry linkages
- 27) State government support for exports
- 28) Textiles as fulfilling esteem or status needs
- 29) Effects of new product development process

#### **6.1.2.1 List of Apriori Codes Relevant to Study**

The list of apriori or pre-existing codes developed from the value chain framework or typology was identified before the actual coding process begun.

This was to ensure that the readings of the cases could be quickly followed by the identification of tags, or relevant sentences or phrases that referred to those codes. The list of apriori codes that were developed for the study were

### 1. Firm Rents

A competitive edge for the firm or sources of rent *within the firm* may be derived from four sources:

- a) technology of firm
- b) the human resources
- c) marketing processes
- d) the organization of work and
- e) the R& D strengths

In the analysis of interviews, the term **FIRM RENTS** is used to refer to any of the four types of firm specific rents that may be mentioned as important or may be derived from interview based descriptions of the same. The other apriori codes that are derived from the theoretical framework are:

### 2. Resource Based Rents

### 3. Relational Rents

### 4. Policy Rents

The aspect of **GOVERNANCE** refers to the unwritten or assumed set of rules or methods of operation that are imposed on the chain. Governance may be exerted by more than one firm in the value chain, but usually the larger buyers or retail giants exert the greatest governance on their supplier's chains. To describe this construct the following codes were established

### 5. Governance which may be of three types

- a) Legislative Governance Or Rule Setting
- b) Executive Governance Or Rule Implementation
- c) Judicial Governance Or Rule Enforcement

The next aspect that needs to be studied according to the value chain framework is **UPGRADING**. The upgrading that occurs due to value chain linkages may originate from within actions within the firm or as a result of combined or joint processes or functions. The apriori code for upgrading may be with regard to four aspects: process upgrading, product upgrading, functional upgrading or value chain upgrading. These were identified as

**6. Upgrading**

- a) Process Upgrading
- b) Product Upgrading
- c) Functional Upgrading
- d) Value Chain Upgrading

Industry related parameters such as **CRITICAL SUCCESS FACTORS** of the industry, which are pooled into two sets; order winning and order qualifying is another aspect of value chain analysis that is considered important to identify. The handbook describes three aspects that help researchers to identify the nature of the industry to which supplying firms are linked and which have a bearing on their growth paths. These aspects also determine the bargaining power that firms in developing countries are likely to have, and helps to identify where government policy may make a breakthrough, if firms are shunted to low growth options. The parameters examined were again given apriori codes or category names. These were:

- 7. Critical success factors.** These were pooled into two sets by the respondents.
  - a) Order Winning CSF
  - b) Order Qualifying CSF
- 8. Key Markets:** the top three or five countries or regions important to the firm in terms of revenue as well as volume.
- 9. Key Segments:** this refers to the buyer segments or buyer classes to which the company is selling products. Identifying the top three buyer segments is thus an objective.

### 6.1.2.2 List of Emergent Codes Relevant to Study

As described earlier twenty eight labels or tags developed during the reading of the interview transcripts which were analyzed and re-analyzed to decide which were to be made emergent or inductive codes. A list of emergent codes which were also identified or isolated during the course of study and which had an effect on the firm were finally decided upon. The rich description and analytical detail that was made possible by the case study research method could only be served if other areas that impacted the study were identified, beyond what was called upon to be examined. These areas or domains have a direct or indirect effect on the firm actions and outcomes, affecting the firms' performance related outcomes as well as its effects on relations with its buyers and suppliers. These needed to be studied as well, to assess their effects on the value chain linkages and the firm actions. They were

- 1) Home Textile Industry Characteristics
- 2) Macroeconomic Effects On Industry
- 3) Effects of Marketing Actions
- 4) Marketing Intermediaries
- 5) Buyer Segments/Store Categories or Product Lines of Firm
- 6) Product Related Aspects
- 7) Increasing Value of Exportable Items
- 8) Production Related Issues
- 9) Organisational Support Structure
- 10) Second tier Producers: Cooperatives
- 11) Second tier Producers – Power looms
- 12) Handloom Specific Influences
- 13) Cluster Related Influences
- 14) Government Support to Export Sector
- 15) Government Support to Cooperative Sector
- 16) Private Associations to Aid Industry

- 17) Roots of the Industry- Effects of Firm Lineage
- 18) Trust in the Chain
- 19) Weaknesses/Factors Depleting Rents.

### **6.1.3 Structure of the Case Study Report**

The first strand of the study was a multiple holistic case study. This involved an in-depth study of three manufacturing export firms. As far as possible firm names will be confidential, though individual's names may be mentioned. This is because of cross references made during the course of the study. The case analysis will be carried out in two phases. In the first phase individual cases will be examined. This will be followed by a cross case analysis, which seeks to examine aspects of all three cases in tandem. This process will be structured as follows:

## **6.2 Individual Case Analysis: Firm M**

### **6.2.1 Bird's eye view of the firm M**

### **6.2.2 General value chain map of firm M**

### **6.2.3 Prior codes discussed from interview transcripts.**

6.2.3.1 Sources of rent in the firm

6.2.3.2 Sources and types of governance

6.2.3.3 Sources and types of upgrading

### **6.2.4 Emergent codes identified from interview transcripts**

### **6.2.5 Inferences from individual case analysis of firm M**

## **6.3 Individual case analysis of firm H**

### **6.3.1 Bird's eye view of the firm H**

### **6.3.2 General value chain map of firm H**

### **6.3.3 Prior codes discussed from interview transcripts.**

6.3.3.1 Sources of rent in the firm

6.3.3.2 Sources and types of governance

6.3.3.3 Sources and types of upgrading

### **6.3.4 Emergent codes identified from interview transcripts**

### **6.3.5 Inferences from individual case analysis of firm H**

## **6.4 Individual Case Analysis of Firm S**

### **6.4.1 Bird's eye view of the firm S**

### **6.4.2 General value chain map of firm S**

### **6.4.3 Prior codes discussed from interview transcripts.**

#### 6.4.3.1 Sources of rent in the firm

#### 6.4.3.2 Sources and types of governance

#### 6.4.3.3 Sources and types of upgrading

### **6.4.4 Emergent codes identified from interview transcripts**

### **6.4.5 Inferences from individual case analysis of firm S**

## **6.5 Cross Case Analysis of Strand I**

### **6.5.1 Data array of Firm (Endogenous) Rents**

#### 6.5.1.1 Technology rents

#### 6.5.1.2 Human resource based rents

#### 6.5.1.3 Organization of work as source of rent

#### 6.5.1.4 Marketing rents

#### 6.5.1.5 R&D rents

### **6.5.2 Data array of Resource based rents**

### **6.5.3 Data array of Relational or chain rents**

### **6.5.4 Data array of Exogenous rents**

## **6.6 Data Array of of sources of governance**

### **6.6.1 Legislative governance within and between firms**

### **6.6.2 Executive governance within and between firms**

### **6.6.3 Judicial governance within and between firms**

### **6.6.4 Trust based implementation of governance**

## **6.7 Data Array of Types of Upgrading**

### **6.7.1 Process upgrading within and between firms**

### **6.7.2 Product upgrading within and between firms**

### **6.7.3 Functional upgrading within and between firms**

### **6.7.4 Evidence of value –chain upgrading**



## **6.8 Analyses of the critical success factors specified by firms**

### **6.8.1 Data Array of order winning characteristics**

### **6.8.2 Data Array of order qualifying characteristics**

### **6.8.3 Development of radar charts for CSF assessment**

#### 6.8.3.1 Radar charts of Firm H

#### 6.8.3.2 Radar charts of Firm M

#### 6.8.3.3 Radar charts of Firm S

## **6.9 Analyses of the buying functions**

### **6.9.1 Analysis of the key segments or key buyers**

### **6.9.2 Analyses of the key product categories**

### **6.9.3 Analysis of the destination of sales of case study firms**

## **6.2 Individual Case Analysis of Firm H**

### **6.2.1 Introduction to Firm M: A Bird's Eye View**

#### ***Key Selling Propositions:***

This has been described in company brochures as 'weaving decorative fabrics....creating spellbound products.... since 1970.

The company has been certified under the ISO 9001: 2000 Quality Management System and also has the approval of European Department Stores for eco labeling of products. Recently the company was successfully audited for BSCI (Bureau of Social Compliance Indicators) standards, a regionally accepted standard for the EU.

#### ***Production Facilities:***

Firm M has two manufacturing units, one at Azhikode in Kannur and another at Kulappuram, 35km away. These units are equipped with 120 regular handlooms and 45 jacquard looms. It has its own centralized dyeing units where dyeing is done in traditional vats, for the VAT dyeing method. Mechanized roller dyeing methods are also used. Up to 2.5 tons of yarn can be dyed daily. Internationally accepted fastness standards are maintained. Drying is done in steam drying chambers.

Mechanized winding and warping facilities are employed to speed up work. 80,000 meters of fabric per month can be produced and the weaves include plain materials, dobby and jacquards. Widths of 120 inches can be woven and jacquards up to 90 inches.

The stitching unit is equipped with computerized embroidery machines and high speed sewing machines, ensuring fast and efficient manufacture of made-ups.

***Product Profile:***

- a) Shirting and dress materials
- b) Furnishing fabrics
- c) Made ups- bed linen, table linen, kitchen linen, lifestyle products, bags, hammocks, special collections
- d) Yarn varieties, cotton and fancy
- e) Cushion fabrics

***Destinations:***

Austria, France, Hong Kong, Malaysia, New Zealand, Switzerland, USA, Belgium, Germany, Japan, the Netherlands. etc.

6.2.2 Backward and Forward Linkages of firm M

Table 6.1: Sequence of Activities in Firm M’s Value Chain and Approximate Contribution to Final Product Cost

Categories of buyers	Department store chains (not mass market)	Importer wholesalers and distributors	Catalogue companies
Retailer/final buyer margins	20%	10%	17%
Designer margin	12%	10%	20%
Distributors margin	} Accounts for 30% of final product cost	} Accounts for 20% of final product	} Accounts for 30% of final product
Trucking to warehouse			
Destination port costs			
Shipping and forwarding agents	5%	7%	10%
f. Retail packing/ master cartons/loading	Totally 25% of product cost	Totally 30%	Totally 30%
e. Steam Pressing, folding	Within Kannur facility	Within Kannur facility	Within Kannur facility
Quality inspection			
d. Fixing of product labels	Within Kannur facility	Within Kannur facility	Within Kannur facility
quality inspection			
c. Embroidery, finishing works, appliqué, stitching	Within Kannur facility	Within Kannur facility	Within Kannur facility
b. Accessorizing, stitching and finishing			
fabric cutting according to design	Within Kannur facility	Within Kannur facility	Within Kannur facility
8 .Made ups manufacture:	Out of state facilities	Out of state facilities	Out of state facilities
7. For furnishing fabric -steam pressing, rolling, vacuum packing	(printing)	(printing)	(printing)
6. Return and inspection	Within factory	Within factory	Within factory
5. Treatments —lamination, calendaring, stendering, flame resistance, water-proofing out of state	Within factory	Within factory	within factory
	Within factory	Within factory	Within factory
4. Inspection of fabric after production	Treatments of fabric done within Kannur facility or out of state facilities	Treatments of fabric done within Kannur facility or out of state facilities	Treatments of fabric done within Kannur facility or out of state facilities
3.Production of fabric outside of company (for all three buyer segments)	Individual weavers in factory surroundings 3%	Power looms in Kannur 5%	Cooperatives in Kannur 10%
2. Production within company (for all three buyer segments)	Sample development	Handloom production	Fabric production
1. Inputs	Yarns , dyes and chemicals from Kannur based stockists or NHDC for common yarn counts- on receipt of order, and not stocked as inventory	Accessories suppliers based in Tirupur. 5% of final cost,	Packing materials, and plastics based in textile production centers out of state
Yarn	20% of final product cost		5% of final cost
Chemicals			
Dyes			
Accessories			
Packing materials			
(Common sourcing for all three buyer segments)			

### 6.2.3 Apriori Codes: Evidence from Interview Transcripts

#### 6.2.3.1 Sources of Rent Within the Firm

##### *Technology Related Sources of Rent*

##### **INTCS M-3**

Rents in terms of technology were not significant. The respondent said that recent modernization had not been done. The latest up gradation done for improving the technology within the firm and to make it less labor intensive, was in the year 2000. Among the various kinds of dyeing methods that were in vogue, VAT dyeing was being used predominantly in the region. It resulted in a finished product that was more durable but costlier. It was the usual method of dyeing in Kannur for generations. Now, changes were happening as it was becoming uneconomical for firms to carry out VAT dyeing. Direct dyes and Prussian dyes were used in Karur, a competing textile cluster in Tamil Nadu. 85% of dyeing was with this method in this textile hub.

Other equipments being used in the firm was

- a. Needle detector machine
- b. Cutting machine
- c. Stitching machines
- d. Peroxide bleaching (this was a modernization, as normally caustic soda is used for bleaching)
- e. Kier drying instead of air drying

The respondent mentioned that some post manufacture processes like high quality printing or lamination was done in Tamil Nadu as a job work. Post process activity was done in Coimbatore for the firm.

**Memo:** Technical or infrastructure related rents that are associated with modernization of equipment, or the establishment of buildings or work areas did not seem to be significant sources of rent.

#### **INTCS M-4**

Though state of the art high-end technological changes have not been many, a few work simplification techniques or labor reducing processes were set up after the respondent who belonged to the second generation of the founder, came into the fold of the firm. Some of the changes had been done after the respondent joined the firm, to make the low value adding tasks less labor dependent, or to reduce time lost due to these functions. They were not recent modernizations. The cotton yarn acquired from stockists within Kannur was put through the following processes:

- 1) *Yarn boiling*. Normally done in VAT Dye processing. Here, raw yarn boiled in caustic soda at high temperature to mercerize the fiber, increase dye absorption, smoothness, improve sheen of the filaments and enable more durable products because of the increased processing the fiber is subject to. The yarn boiling process was made more efficient and less labour intensive.
- 2) *Yarn dyeing*. Normally by VAT dyeing in Kannur though other dyeing methods like cabinet dyeing are being extensively used by many firms. The benefits of cabinet dyeing are
  - a) The ability to dyeing greater amounts of yarn with the same dye.
  - b) Increase uniformity of lots, once product is sent to weaving units for weaving.

Cabinet dyeing requires several washing and rinsing and is thus considered to be costly.

As a process improvement the firm had taken up roller dyeing. This is a substitute to cabinet dyeing. Here machine rollers are used to circulate the yarn in the dyes which is in a container. It has helped to reduce labor. Kier boiling was established wherein drying is done using centrifugal force, as the dyed yarn is placed in cylindrical sealed containers and rotated at high speeds.

- 3) *Drying facility* –this was developed to increase the scale of drying. Called ‘yarn dryer’, up to 2 tonnes per day can be dried. It was required because after VAT dyeing a combination of 2-3 colors are sometimes mixed and when this is carried out some colors become reddish and turns tones in direct sunlight. So this facility is used. It is also very necessary during monsoons. This facility enabled continuous work and better consistency could be achieved in the output of the firm as it was not dependent on the ambient temperature.
- 4) *Dyeing* – usually 50% of dyeing is done in house. If this is not sufficient it is done in a common facility in Kannur.
- 5) Other machine additions that may have made the work flows in the firm more efficient are
  - a) *Pern winding machines*- for the weft
  - b) *Bobbin winding machines* for the warp.

Benefits for the same were lessening of the labor requirement and increasing consistency

These changes were brought about only after 1992. Between 1985 and 1990, when the respondent joined the business, the importance was given to making corrections and improvements so that work could be carried out faster. These small ways of mechanization was called for as the firm had bought one of the largest handloom factories making mechanization difficult.

#### ***New Product Development and R&D Related Rents***

##### **INTCS M-4**

New sample development is the source of rent that is important. Development of new and innovative products is the lifeblood of the business. The importance of this was high. On any given day five or six samples would be in various stages of production.

*Memo:* For the company, sampling received maximum importance when attached to fairs. Sampling was a process that succeeded visits to fairs. These samples were of very different types depending on buyer need.

### ***Human Resource Related Rents***

#### **INTCS M-4**

The relationship between the firm and workers were strong. They had been part of the firm for many years. As the firm had a handloom production set up that was very large it had a large number of handloom weaving staff on its rolls. The firm suffered from lack of new thinking and methods and the ability to adopt new practices because many of the workers had been part of the staff since the time of his father.

As the staff was mostly family oriented, and managerial staff belonged to the founding family's extended family networks, a loss of professional management was seen in the inability to enforce certain decisions, or change age old work methods.

Technical persons were recruited from the Indian Institute of Handloom Technology (IIHT), Thottada, Kannur and IIHT, Salem which offered a polytechnic diploma, among other courses. They were taken for training with a stipend and if they performed well they were absorbed into the company. Number of technical staff required was not much but after they were absorbed they became technical supervisors, sample development staff and quality controllers. Over a period of good performance they were promoted to managerial level staff.

The strength of the human resources lay in the ability to undertake production planning and fair- based sample development and planning through a five member team consisting of the proprietor, export manager, assistant export manager, supervisors and the personal assistant to the proprietor. These five members represented top management who were able to coordinate and direct activities. A structured organizational chart and hierarchy was not as important as the ability of these individuals to organize production and make order fulfillment more satisfactory.

### INTCS M-5

The respondent sought to emphasize that source of rent in human resources lay within a five member team which worked together and coordinated activities. Their experience in the field, number of years of work and ability to respond to buyers' requirements was high. Some of the key personnel abilities mentioned by the respondent were

- a) High reliability
- b) Quick response to buyer requirements
- c) Spontaneity; Time to action was fast. In case of any problem it was clearly traced to the particular critical operation in the factory that needed to be reworked and action was taken without much delay or hierarchical issues. A hands-on response was carried out.
- d) Trustworthiness was high

A drawback was that a further chain of responsibility down the chain was not in place, beyond the few individuals who interacted and met the buyer, other members of the company, especially down the chain of command needed to be lifted up to improve communication and interact with buyers and to improve answerability and accountability. This needed to be dealt with. The respondent spoke of organizing corporate training in this regard.

**Memo1:** An attempt to deal with decreased professionalism of the workforce was underway. Section based training was under proposal with external training firms. Job rotation was done for some jobs like dyeing. Dyers also needed to be updated about different techniques as in some categories person to person changes were there. Annual training as a practice was not there.

**Memo2:** Process upgrading was evident in some areas where processes were improved, but these were not recent practices. Training for the use of specific machines was provided by company representatives so that staff could learn how the modern equipment was to be used. These machines were imported Juki machines,



CAD embroidery machines, design development based CAD software etc. Special training had been given, though it was not recent. For some key categories of product like fill cushions, buyers had insisted on some machines to improve safety like needle detector machines, carding machines, filling machines, vacuum packing machines etc- For each of these specific training was given by the sellers or agents who came to the factory to set the machines, ensure training and learning and provide service.

A hands on approach to market development and sales promotion were seen. Twenty staff members were continuously associated with sample development for fairs, which was a big task that needs to be well coordinated and timed well according to fair timings, month of execution and season in which products would be sold. Ten staff members were dealing with various buyers on a day to day basis. Senior staff was allocated to buyers and were equipped to handle their queries.

**Memo 3:** What was seen was that the distance between execution of changes and modification of product and queries or requests from buyers were very narrow. Implementation was very fast. Could this have been because of his lack of a rigid structure or a flexibility that was built into the system?

#### ***Depletion of Production Related Rents***

##### **INTCS M-6**

Though production on handlooms was done in the factory to sustain the facility and provide work to the handloom weavers, the company was unable to utilize the full facility due to cost problems of handloom. Private power looms in Kannur were being used to achieve volumes

#### ***Firm Strategy as a Source of Rent***

##### **INTCS M-6**

Strategy as a source of rent meant that the firm was constantly looking at the environment and at the opportunities and threats in it and shaping strategy of firm. Respondent belonged to a firm established much earlier and in the business for decades. The built up area of the weaving facility was now a weight upon the

firm. A key barrier to rapid modernization and a built in resistance to change or improvement in pace of weaving and productivity was rife, given that many of the employees were weavers who had been with the company for decades. This was weighing down the company and in many cases the driving force behind doing handloom production in the existing Kannur based facility was to maintain workers on the payroll or at least enable running costs.

This handloom orientation had been a barrier for rapid growth of the company. A strong objective towards modernization was seen in the firm's acquisition of land and factory at Nadukani, the site for the Integrated Textile Park. This was the integrated textile park that exporters of the region hoped to use to increase the scale of their operations. It was finally inaugurated in October 2010, after approval of the same and the foundation stone was laid in March, 2005. The facility was expected to have many common facilities and treatment plants and would have high investment in power loom machinery. Some of the product categories that the firm planned to invest in were

- a) Turnkey towel manufacturing. This was to use imported machines that would increase the output of towels
- b) Garments, knitwear and tailoring to suit developing markets.
- c) Bed linen- use of top or high quality yarns meant for luxury markets. There was already a potential market within the country.
- d) Heavy ring with loom machines
- e) Silk weaving to be taken up.

### **6.2.3.2 Sources and Types of Governance – Legislative, Executive or Judicial**

#### ***Legislative Governance***

##### **INTCS M-5**

Technology for testing of products was discussed by the respondent. In-house they had a basic facility for testing of the product. 100% colour matching

and testing for shrinkage was enabled. In some cases the Textiles Committee (TC) laboratory in Kannur was used if buyers demanded specific tests.

### ***Judicial Governance***

#### **INTCS M-5**

Buyers sometimes nominated global testing laboratories like SGS, Intertech etc to verify for the buyer whether products were meeting standards. The buyers notified these laboratories which then notified the exporter. Results were sent directly to the buyer and a copy to the exporter.

**Memo:** The use of laboratories as sources of judicial governance outside the chain is seen in many cases. They were used by buyers to ensure that suppliers matched certain specifications.

### ***Legislative Governance***

#### **INTCS M-6**

The legislative governance measures were discussed. The interview was based on a discussion about the adoption of standards and how important this was to the present buyers. It contributed to increased trade and improved buyer confidence especially for newer buyers. In this premise, the social accountability standards (SA 8000) were being considered for adoption by many exporters in the region but what prevented them from going forward was a clause that required the company to encourage the formation of unions or associations within the firm that firms found unable to allow. In the area of fair trade practices a key requirement was to ensure that workers or the lower / less visible participants like home workers and unorganized labor had a fair chance of expressing their needs too. This meant that there had to be records of their involvement in the deliberation or discussion with the management to better or improve their living conditions. If it was not there or if workers did not wish to have a union, they could organize themselves and present issues to management or at least to have a worker representative who spoke to management about issues regarding workers.

**Memo:** This was the bone of contention standing between managements adopting SA standards by firms in Kannur. Very few firms felt able to encourage workers to unionize or to form associations given that in Kerala, and particularly in Kannur, workers historically pursued and encouraged political activism. It was preventing firms from being able to adopt SA standards. It was a legislative governance measure that many buyers preferred suppliers to have but firms in the region were not able to adopt them. It was usually the EU countries that insisted on such certification. As a result of this clause many supplying firms had not adopted these standards.

### ***Regional Process Standards Exerting Legislative Governance***

#### **INTCS M-6**

ISO 9001 standards had been adopted by the company about ten years back. These legislative standards were adopted and internalized as firm standards from then. The firm standards had been maintained at ISO levels. Another regional governance standard mentioned that had a legislative governance effect acting on the firm were BSC I standards. This was the Business Social Compliance Initiative of a set of European countries. Once suppliers met certain stringent requirements of this regional association, they were able to register themselves as members of the BSCI initiative with an online registration initiative that was viewed by prospective buyers. They could observe certified supplier lists on the internet and be assured of a certain basic quality. The members are given a password to access information from the consortium. Top 220 European companies were members of BSCI. The authority that certified whether the supplier met the requirements of the regional standards initiative was SGS, RINA of Italy. The supplying company once approved would be put up on the website with photographs so that prospective buyers may actively search for key information about suppliers. Firm M was a member of the BSCI and was able to avail benefits of accessing more buyers, who were members.

**Memo:** As this was a regional standard that was being followed, this was not being taken up by many suppliers in the cluster, as seen from the survey results. It becomes clear that as increased emphasis on regionalization was seen on a global basis, firms would have to start conforming to regional standards. Firms would have to keep up with this.

### ***Governance in the form of Product and Process Standards***

#### **INTCS M-9**

Broadly standards may be of two types:

- a. Management standards like ISO Standards.
- b. Product specific standards. These were specifications given for the use in home textile products like the use of AZO free dyes, REACH standards specified for dyeing of fabric, etc.

The respondent said that for specific products different levels of quality was decided by mandates for particular attributes. This was for aspects like light fastness, colour fastness, shrinkage etc. These attributes had different levels for different product quality levels, for each product category. This was also different for different categories of buyers in different product classes. To enable easy maintenance of standards the firm has set a body of standards for each product that it maintained specifically for each product class or category of products. It was defined in terms of AQL (Average Quality Level) of 2/100. (two defects in hundred products).

Regarding the governance measures exerted by buyers and how stringent they were, the respondent said that the buyers generally fell into three categories regarding their governance or quality enforcement.

50% of shipments of the company were to buyers who were happy to accept quality levels maintained by suppliers. They were satisfied with the inbuilt quality levels of the supplier.

30% of buyers needed products of high quality standards. Suppliers needed to meet high standards and enable latest techniques of quality enhancement like eco labeling.

20% of customers were exclusive or of very high quality orientation, having very strict standards. An example was the high end catalogue companies who directly operated to the final customer. Mail order or catalogue companies like Otto Heine. Very high promise of quality was given by them to their customers and they needed to deliver on this.

For this last group of buyers two methods of ensuring quality was followed:

1. Sealer approved sample: the first or initial product produced according to the buyer specification is sent to the buyer or the office of the testing laboratory. The buyer may have directed a testing lab or service provider to examine the parameters of the product. To find out whether it meets the specification regarding particular product parameters, the laboratory service carries out tests on the fabric. The test results are then sent to the buyer, and a copy to the supplier. The buyer only then gives the approval to the supplier. This is called 'seal of approval'.
2. The second method by which quality approval is indicated is by online inspection. This is usually done by the buyer's representative. The agents (if buyer operates through them) play a key role in examining the company operations at three phases. The initial activity is examined by them. When the production line starts an on-line inspection is done, and final product inspection is done from master cartons. Usually this is done by the buyers' own personnel or their representative. Ten percent of buyers usually see the company products at fairs and tell the agents to contact buyer.

#### **INTCS M-8**

Regarding the kind of relationship that existed with the buyer the respondent said that about two thirds or sixty six percent of buyers had a direct

relationship to the supplier. This was maintained through directly communicating with them and not through the use of agents or buyers representatives. This meant that they saw each other at regular intervals during the fairs.

**Memo:** Direct contact meant that it was possible to discuss and agree on a level of standards to be adopted. Broadly this could be classified as ISO and non ISO standards. ISO standards may be BSCI for EU markets or SA 8000 standards. For the US market RAP (Retailer based) standards are specified.

### **INTCS M-10**

The ISO Rating sheet that was developed by the company according to the ISO requirement was annually filled in by the company buyers to examine their performance and make improvements. The firm was assessed on four criteria and weights were given.

1. Communication-15
2. Delivery – 30
3. Quality – 35
4. Response and follow up – 20

Though the rating sheet was sent out to all twenty seven buyers that the firm had, not many took the effort to reply. At that time eleven buyers had replied. But this did not mean that the other buyers were dissatisfied as they were still giving orders. The record showed:

Delighted customers 3  
Happy customers 5  
Satisfied customers 3  
Dissatisfied customers 0

Though the response rate was low, the consistency of orders from most of their buyers was there. He stated an example which showed the ability of the company to cater to buyer requirements. In Japan, the company had three different

buyers, but it was able to supply different designs, product range and specifications with good quality so that product exclusivity was maintained.

#### **6.2.4 Emergent Codes: Evidence from Interviews**

##### **1. Home Textile Industry Challenges**

###### **INTCS M-1**

The respondent began by discussing about the challenges facing the industry.

- 1) *Changes in business processes:* Earlier retailers themselves were involved in sourcing decisions. For 2009 summer collections, in 2008 May itself, the planning for the forthcoming season was done. It involved aspects like color forecasting, design generation, creation of artwork, sample generation, ordering and warehousing. This all used to be done by retailers. A great deal of planning and structured decisions needed to be timed to suit the season's requirement. But now a greater role is played by buyer agents in producer countries. They were handling sourcing. Tasks were allotted to agents. Sourcing was done by them. Only the final off-take from destination ports was taken up by the retailers. Agents benefited from these activities, and the downside was that supplier margins were squeezed.
- 2) *The end of the Multi-fiber Agreement:* This was a great loss to the cluster which benefited from a low preferential duty structure that many countries had for handloom products. Power loom products attracted higher duties so buyers were interested in buying handloom products because of the lowered customs duties they needed to pay. This was a situation where handloom products were preferred for the benefits to the importer. After duty concessions of up to 15% the importer benefited from this. It was a positive fact that quantitative restrictions or quotas for handlooms were never filled and was always available for suppliers to use up. Available quotas provided a demand for handlooms that were never filled quickly.



- 3) *Reduced preference for handlooms:* As the MFA was phased out, preference for handlooms were lost. The same duty structure applied to all fabric types, whether hand- made or power loom based. This meant that no buyer insisted on handloom as it was slightly more expensive. Origin was no longer a criterion. The best price was critical.

**Memo 1:** It may be said that the set of rules governing trade in textiles for decades, the Multi-fiber Agreement had a crucial role in lifting the cluster into international recognition. This was because of the quota for handmade products. Having made an early entry into export markets through the ‘crepe’ fabric, handlooms from the region had a ready market because of the reputation that the products had in developed markets, especially European markets. This was helped by the fact that an early entry gave them a competitive edge. They did not enter when quotas tightened or when other hand loom clusters began to look at export markets as a possible growth strategy.

**Memo 2:** Unlike many other clusters- industrial groups or networks of firms, Kannur was an early entrant into industrial production, albeit because of an organized worker/weaver based model- where the true source of an innovation’s success lay in the strength of organized labor or semi organized craftsmen pooling their skill and resources towards developing an organized profit generating enterprise wherein profits or revenues were shared in some percentage by the workers themselves. The network of cooperative societies was instrumental in enabling the greater volumes of handloom production from the region. Their embedded skills and weaving lineage helped them to create designs and innovate with new weaving techniques- a skill that seemed synergistic with the home textile fashion orientations. It was season oriented and based on rapidly changing trends. The need for high variability and smaller production lots was met by this quasi governmental network of cooperative societies, as well as a second ring of individual weaving experts, who worked on their own looms, as family run units.

### INTCS M-2

While discussing the trends in the industry, the respondent spoke of the importance of having an established presence in buyer markets. Establishment of marketing offices, though expensive, would yield immense returns since the firm would get a hands on 'feel' of the market's needs and would not need to rely on agents or vendor managers of bigger companies.

Respondent mentioned one of the important export firms in the region that was the subsidiary of a multinational business house based in Chennai. The Murugappa group company dealing in fabric weaving requirements of international markets was the Ambadi Textile Mills located at Kannur. This group was able to sell products at a premium because

- a) They catered to high value markets.
- b) The marketing wing of the group was based in London. It was called Parry Murray. This was located in the buyer market and it was the marketing office or the distributing wing of the Ambadi enterprises. The Murugappa group had purchased it from COMTRUST (the Commonwealth Trust, India) when the factory was no longer producing fabrics.
- c) Ambadi, having a public limited management operated very differently than other firms in the cluster. Their output went directly to Parry Murray – which was the exclusive distributorship of Ambadi, for the western or European markets. Parry Murray was both a designing and fabric consultant firm and a distributor /wholesaler for the products sourced from Kannur. Even if they had only one buyer, they were able to achieve a huge turnover because of the strength of this marketing office.

### INTCS M-6

The respondent spoke of changes in home textile marketing and sourcing. Earlier artwork was produced through the design team of the buyer office, but now firms in Kannur needed to build strengths in this. Firms in Kannur now had in-

house teams of designers which were able to create optional designs which were approved by buyer after sending samples to them. Increased responsibility was being taken up by the supplying firms in developing countries.

Firms in Kannur took up design development by maintaining in house design teams manned by well qualified design-trained personnel. Most of the finishing work and packing for retail showroom done for private labels was being done at the factory especially packing for the final retailer showrooms.

The respondent believed that the future of this business in the cluster lay in the ability to source products. The firms should become master coordinators and planners who would streamline production happening in a set of places in India. An example given was the ability to meet needs of large retailer houses or distributors, by providing a single point of dealing with firms in India- e.g. Coir should be sourced from Alleppey, Kannur should provide the furnishing, Bangalore firms for silk products, Panipat for rugs, Kashmir based clusters for wool carpets, etc, .

**Memo:** All these suppliers would have to coordinate their products as buyers was shifting responsibility to procurement experts or buyer suppliers. A shipment would contain a mixture of products from different parts of India and shipped from port or hub, saving energy and time and decreasing retailer involvement. Thus supplier takes up the role as coordinator.

## **2. *Macroeconomic Effects on Industry***

### **INTCS M-2**

The interview started with the recognition by the respondent that the end of the Multifiber agreement at the beginning of 2005 was a turning point in the handloom furnishing export industry of the cluster. This is because the MFA era was a beneficial time for firms making hand-woven or hand loomed products. The preferential duty scheme was a result of this preference. The end of 2004 and beginning of 2005 was a turning point for the handloom furnishing industry. This was because the preference for handloom products among buyers was lost.

Kannur was faced with a situation where price consciousness was becoming important for buyers. Price management became a key need as buyers no longer considered product origin as a deciding factor. Pricing became a key variable in the marketing mix given the global emphasis towards low cost of product, scale of production and value based offerings.

Another aspect was the increased competition from Karur in the area of home furnishings. It was a power loom production hub. As price became increasingly important to buyers between 1989-95 they started getting power loom products from Karur. Competition increased from Karur. This became an increasing burden on Kannur handloom producers when buyers started preferring lower priced products. Increasing pressure on prices caused many exporters to make products at lower prices on power loom and get them certified as handloom from Kannur by the government agency responsible for the same, located in the region.

**Memo:** The information about this happening had been suggested by discussions with other cases and other exporters. This was an unethical practice that should not have been done, that had deleterious effects on the cluster as a whole. It affected the intra cluster dynamics and trust based relationships making the firms distrustful of other firms in the cluster. Relationships that were formerly strong between firms within the cluster were harmed. The older firms were respectful of the competitive borders of similar firms were alienated from firms that started later and were more aggressive in their marketing strategy. A heightened competition among the firms and a narrowing of competitive space was seen as buyers tried to expand their markets by preying on competing company buyers.

## **INTCS M-2**

Discussing about the effect of the end of the MFA on the industry, it was true that some of the exporters in the cluster had unethically utilized the government certification for fabrics woven in power loom at locations outside of Kannur. This issue had been raised by other producers in the cluster. Many

suppliers had attempted to cater to lowering price to meet volume buyer requirements. This was also detrimental to the intra cluster weaving infrastructure. The entire network of handloom cooperatives and individual weavers who operated within the cluster suffered a beating when this became a trend. Since buyers no longer insisted on a handloom origin, patronage of the hand loom weaving industry within the cluster in the form of cooperatives suffered.

The respondent in question felt that if order generation alone was the objective he would have immediately opted for the low cost option by going for power loom production both within the cluster and in Tamil Nadu. His concern was rather to enable production to happen at his firm and using the facilities and the labor in his organization as the organization needed to be sustained.

#### **INTCS M-2**

Contrary to the beliefs of the local community and the political establishment, Kannur was no longer attracting buyers because of the ‘Cannanore crepe’ brand. This reason for global recognition that happened many decades ago was still being misused by local leaders and political parties who tried to highlight attention towards the glorious past of Kannur, in the belief that this would aid their election prospects. Only if exporters offered prices as low as the Karur but with handloom quality could this claim be used to increase market share.

**Memo:** the local leadership and political frameworks made use of this claim to establish their sincerity of purpose, i.e, giving Kannur back its former prominence. This was a strategy that had no basis as majority of buyers no longer cared for the origin or fabric processing. It was immaterial whether it was handloom based or power loom originated, unless they attempted to use this as a selling proposition, as part of the product offering, which few buyers could afford.

#### **INTCS M-9**

In the course of discussion the respondent went on to describe how the recession had affected the industry in the period from 2007. Eighty percent of the

chain was functioning because of six or seven exporters; tight competition was there as output had decreased due to the recession. Home loans disbursement had been directly affected by the recession. Loans by banks had also come down because of the lack of credit worthiness. Fewer homes meant that less of home furnishings were demanded. This caused an overall fall in demand.

#### **INTCS M-10**

The respondent felt that the recession would follow the pattern of an inverted W. Though markets had improved in late 2009, by Jan-Feb 2010 markets slumped again. This was having a direct effect on the home loans category and home textiles category suffered the brunt of this. Moreover the companies from Kannur had a strong customer base in EU countries. Many of these countries had been traditional export markets for decades. The demand from these countries had fallen.

**Memo:** it was seen that demand fluctuation in buyer markets had a huge effect on suppliers primarily because they were not in the mass market or volume based categories where demand falls in one country could be offset by gains in another and where the category of product were mass produced basic categories with more inelastic demand, which had a uniform need among customers. The firms these companies supplied to appear to be mostly in the better quality oriented retail segment with fewer stores, better merchandise finish, and greater fashion orientation and not as widely distributed as a mass market category so they had less leeway in case of a fall in demand.

### **3. *Effects of Marketing Related Actions***

#### **INTCS M-2**

The company had employed the services of a freelance designer to create the artwork or prepare sample designs and give colour suggestions based on the market trends. These samples were then created in the suppliers factories. These finished designs were then sent to the designers who approached stores or importers to place orders.

**Memo:** In response to a query about how beneficial was this- the respondent said that it was very beneficial. Designers in the buyer market gave them a much better chance of being successful in creating winning designs. They were also better equipped to come out with a contemporary product range or collection. It added value to their offering.

#### **INTCS M-4**

Fair visits acted as a precursor for sample development. The development of samples and follow up after the visits is crucial to firm success though not always were enquiries converted to orders.

Firm M had been successful in fairs that exhibited for the entire home range – lifestyle products for the home rather than furnishing specific fairs. ‘Tendance’ and ‘Ambiance’ –were European fairs commonly attended by the firm. About twenty eight lakhs of rupees were spent per fair. These were for cost of stall, travel, accommodation and sample development after the same. The effectiveness was examined by considering how many enquiries were converted to orders.

Two fairs were attended in a year. Regular attendance and participation was seen. In addition to this the firm had a policy of visiting a new country every year. They visited new countries to observe new fairs in these countries that may act as a meeting point for buyers. The Hong Kong fair is frequented by both South East Asian countries who may not attend European or British fairs and fairs in Scandinavian countries.. It may be a meeting point for countries in South East Asia or Pacific Rim countries like New Zealand, Australia and Japan.

**Memo 1:** In market development, one can see a proactive attitude. There does not seem to be a scenario where firms are forced to produce what the buyer demands, though they are directed by the design considerations of the buyer. Suppliers have proactive links with other buyers and attempt to constantly enable market development by interacting with new buyers from different regions. They attempt to do this by choosing fairs carefully, meeting existing buyers on a yearly basis in

buyer's own premises or country, and developing new samples or fulfilling enquiries for samples that could be potential orders/buyers.

**Memo 2:** One notices a trend where suppliers are active in choosing new customers. The firm opts not to distribute all samples to all visitors to the fair stall, because not all prospective customers may follow up and they may use sample products to create cheaper variations. Buyers may give their contact number and courier details but on sending the product, buyer may not follow up.

#### **INTCS M-5**

New product development as a source of rent was discussed. It was related to sample development. The respondent talked about visiting fairs very year. Fair visits were of prime importance to the firm. Every year at least two fairs were visited- the idea was an ongoing contact with existing buyers and to meet new potential buyers. The other benefits was to get new ideas for new products and to meet up and discuss new product ideas and needs for existing buyers, about product changes. Suggestions of products etc. in many cases new product development was fair based and mainly seasonal.

#### **INTCS M -8**

The respondent mentioned about the benefits of going to fairs. At least two fairs an year was the lower limit. What was the advantage of these?

- a) Regular meetings with older buyer and regular buyers. They met for a social contact and to maintain business networks, as well as to increase the personal touch of these contacts. These buyers usually chose the next season's orders from the developed samples that the stall exhibits.
- b) At least ten percent of stall visitors are new or potential buyers. They visit fairs to see new or different products and new enquiries are made from interested buyers.



## **INTCS M8**

In the late nineties the handloom price began to be unacceptable to the buyer as their costs could not be lowered. Local power looms began to be used. Within cluster power looms offered good quality and though priced slightly more than Tamil Nadu based production, were better in finish and manageability.

From 2001-'04 Heimtextil- an international fair in Germany was visited on a regular basis. Increasing product variability was becoming the norm and all the companies that came for exhibition were home textile based. In 2005 the firm participated in two general fairs 'Tendance' and 'Ambiente'. 10-15 new buyers were added on from 2004-09, while from 2001-04 about 7 new buyers only. The respondent felt that by going for more general product exhibitions the firm was able to increase the number of buyers. It tried to concentrate on specific product differentiation and increase its share of lifestyle products as a strategy to appeal to general product fairs rather than home furnishing fairs. The firm was also trying to look at off season markets in contrasting seasons to offload excess stock.

### **4. Buyer Segments and Categories (Marketing Intermediaries)**

#### **INTCS M-1**

Respondent spoke of the three channels through which sales was happening from the cluster: (not pertaining to firm but to the region)

- a) *Directly to final retailer from producer firms:* Retailers had their own establishment costs in the form of office space, design and are work. They operated through buying offices of the retailers usually located in the supply countries.
- b) Retailers in the destination markets source or buy *from importers* in their own countries. These were large establishments that carried out the process of importing from many different sourcing hubs or developing country producers all over the world. They had a consolidating role. As final retailer price did not change suppliers

possible margins had to be reduced to accommodate the importer margins.

- c) Importer or retailer works or sources *through agents* in producer countries. These may be trading companies or buying agents who work on commission. These trading firms like Li & Fung, or William E Connor carried out all activities on behalf of the buyers. As they also needed their margins, the supplier's prices got cut further.

### INTCS M-2

The respondent went on to describe how the different segments carried out their buying or purchase operations. It was related to the kind of export markets that producers had access to.

- a) **Retail stores or department stores:** the product was supplied as per requirement of the store, in store packs or final retailer packing. The product for the stores was manufactured with the aid of the mood boards suggested by retailers. From the design cues and color guides developed according to that season, samples were generated at the suppliers or producer companies. These producer generated samples were sent to the buyer for assessment. They examined the samples and if they required changes, the same was suggested to the suppliers. Once they were satisfied they placed orders. According to the time or season finished orders are sent. It was sent to the retailer warehouse and distributed to the retail store for there. The respondent felt that this channel provided the best value in terms of trust and the most earnings to the supplier. The trust was also highest.
- b) The second channel was through **importers**. He may be a distributor or a wholesaler but he procures products from supplier in bulk. Once design was placed and orders are taken from retailers, the importer becomes responsible for warehousing, inventory, customs, duty handling etc. The benefit for retailers was that their risk was reduced

when they went through importers. Importers push suppliers to cut margins so that they could get their share of margin. Cost of the product at suppliers end was pushed.

- c) In the third case importers had **agents in supplier countries**. It caused a further reduction in the supply firm's margins. The buying offices and agents took care of on line inspection and approvals and final inspection and shipments for buyer. This was preferred by supplier because of the less risk. Agents who dealt in this group were Alliance, Li and Fung, Otto Heine, GS International, Pushkar etc. They were preferred buyer agents.

**Memo1:** in the scenario where buyers try to cut their costs to the maximum, several suppliers from Kannur (exporters) started requesting handloom certified certificate from the concerned certifying agency to avail preferential duty reduction as requested by their buyers. In some cases this led to unethical practices because many of exporters had begun to carry out part of their production in power looms at Karur, Tirupur, Erode and Salem- industrial textile centers in Tamil Nadu. About twenty five percent of exporters in Kannur may have given a false certificate for buyers benefit. This was before 2005, before the end of the MFA.

**Memo2:** the practice that was followed at that time, at least by a few buyers, points to a lack of bargaining power among suppliers. It also means that at least some buyers may have had lead firm status among supplier firms, and dictated terms that the members down the chain were expected to follow, or else be subject to sanctions.

The government agency that was responsible for this also suffered a loss of credibility among the exporters community- especially among the exporters who did not succumb to buyer demands for certification (handloom) on power loom products.

As a staggered effect, the buyers themselves became suspicious of the authenticity of the fabric as several suppliers sourced product from Karur and certified it as handloom. It had deleterious effect on general demand for regions products because the authenticity became questionable. The impact of falsification of origin, (whether handloom or power loom) was significant among second tier producers as well, viz; the handloom cooperatives.

**Memo 3:** The role of the handloom cooperatives in enabling the industry to thrive cannot be undermined. In many cases exporting community has failed to acknowledge the contribution of cooperatives to their business. They have also enabled the clusters region specific weavers to thrive, to become profitable, to provide decent, regular work and to enable learning by doing as new designs, contemporary weaves and seasonal changes- for highly fashion oriented and non standardized products became possible. The learning these societies earned through the manufacture of export market based products was immense. A third outcome was that despite cooperatives having had access to continuous work, of a fairly high standard almost continuous patronage of exporters and supported by innumerable government schemes, the sector never really picked up to a level of becoming more effective, more organized and more self sufficient in production. An inherent misuse of political agendas, politicking, infighting and diversion of activities may have been a key reason for not becoming self generating or self renewing.

### **INTCSM-8**

In the late 1990s the company found that there was a huge gap in the handloom capacity it had acquired and the lack of demand among existing buyers for handloom. In 1998 handloom cost became unacceptable to buyers and respondents realized that it was necessary to actively increase the number of buyers to utilize the full capacity available for handloom production.

From 2001-2004 the firm became a regular visitor and participant at fairs, Heimtextil Textile Fair Frankfurt was most frequented at that time and it led to an increase in the number of buyers, and better capacity utilization of the firm.

At the time of the interview an indication of the number of buyers, percentage of total sales and length of trading relationship was given:

- 30% of total sales were from two key buyers (1970 onwards) having a more than 15 year relationship.
- 15% of total sales were from five buyers (1994 onwards) having a 10-15 year relationship
- 25% of total sales were from fifteen buyers (greatest number of buyers over the last 10 years) having a 7-10 year relationship
- 15% of total sales from five buyers with a 3-7 year relationship
- 15% were from 2-3 buyers recently acquired in the last 1-3 years.

## **5. Product Related Aspects**

### **INTCSM-4**

Sample development for fairs is prepared after visits to fairs at various international locations. Samples were prepared after enquiries are received after visits to fairs. These samples may be

- a) New samples and products developed for new buyers or groups or to target specific countries.
- b) Sample developed for existing buyers who are visiting the fair. Usually 80% of these are confirmed orders.
- c) Samples prepared in advance – these are researched, planned and developed according to the season.

**Memo:** Firm had the facility to develop samples as a priority. Dyeing unit looms and cutting and stitching department- all new samples developed in handloom using own

loom facility. Other samples needed to be developed one month after the fair. About 50% of these samples were confirmed orders. Others were potential order items but they were developed after specific enquiries received from fairs.

For the firm sample creation was done after fair visits. According to respondents it was of prime importance, because it represented the greatest chance of becoming a permanent order. The creation of samples and follow up after fair visits was crucial to the firm's success though not always were enquiries converted to orders.

A key point was that the firm did better business in general product fairs or home based fairs rather than specific home furnishing based fairs. Cost of stand, travel, sample development etc came to 7-8 lakhs of rupees and needed to be better utilized, converted to orders. Success was more in those fairs when they were followed up by orders. Not always were samples converted to orders. Usually two fairs a year were attended. The firm also had a policy of visiting a new country every year...visiting new fairs in different countries was done. That way the fairs became a meeting point for buyers. These fairs were important to examine product offerings the kinds of colors and seasonal changes.

#### ***Importance of sample development***

##### **INTCS M-4**

Though it was possible to go to a fair with items available in hand, it was not enough. Success lay in developing innovative products to suit season. In June and July 2008 trade fairs will focus on items for autumn (fall), winter, and in 2009 major orders will be for spring summer 2010. Developing ideas/trends and getting ideas of the right colors for the next season is a key strength.

##### **INTCS M-7**

The respondent said that the company utilized the services of a designer in the EU market. The designer was able to specify the colors for the season and make suggestion about specific designs and combinations. The firm was able to

cater to greater fashion, or color consciousness of the EU market because of this person. He was paid by commission. As a result of this design linkage the firm was able to get the most of their products suitable for market needs as they had an insider's take of the same. As a result of this linkage, the design development was done at the factory itself being informed by the designer's ideas.

Sometimes the sampling development department developed product specific designs. This was usually done at the factory after getting product related input and enquiries from the fairs that the firm frequented on a yearly basis.

Some of the key product development fairs that the firm visited were Ambiance – at Frankfurt and Tendance, Frankfurt, fairs at Hong Kong and at UK. A strong focus on quality, consistency in delivery and finishing were called for and the firm had this focus in development of new samples.

## **6. *Production Related Issues***

### **INTCSM-3**

The respondent spoke of the difficulty that they had because of the large handloom production facility. In 1968 when the company first started exports the firm had nine or ten buyers during the early days. They had only a few buyers but larger size of orders and consistent in the frequency of orders. In 1990 a major hand loom buyer was obtained that drastically increased the volume of hand loomed cloth that was being sold. So much so that the firm decided to procure additional capacity by procuring one of the largest weaving facilities available at that time, built along the lines of the Commonwealth Trust. This, at that time, greatly increased the company's facility. It was a weaving facility located at Kolappuram that formerly belonged to the Samuel Aaron Weaving Works. Shri Samuel Aaron was one of the stalwarts of the weaving industry in Kannur and a figurehead, an entrepreneur who made the first steps towards an organized industrial establishment.

**Memo:** The respondent in an earlier interview had mentioned how the time of establishment had an indelible effect on the state of the business in the present. Though in the initial years of the industry, firm M was considered one of the biggest firms at the time. Manual production, a strong dependence on handlooms and lack of mechanisation began to become limiting factors to their operations. The fixed assets of the firm increased as a result of taking up the huge facility at Kolappuram. The number of weaving staff went up, so that though production capacity increase the firm found that production of handloom fabric became more difficult because of the rising costs.

It was during the same decade that the firm greatly increased its handloom capacity, that the buyers began to become conscious of the cost of handlooms and started to demand price reductions to suit the trend of decreasing cost and increased value consciousness. At this point the company was burdened with excess handloom weaving capacity and found that value or demand of handloom had fallen drastically. The company was by then saddled with huge capacity, and company found it difficult to change or adapt with a high percentage of fixed capacity. From 1994-2000 it was seen that there was a huge gap in the capacity created by acquiring the handloom factory and its utilization of it. In 1998 handloom cost became unacceptable to buyers and respondents realized that it was necessary to actively increase number of buyers to utilize the huge fixed capacity that was not being sufficiently used.

## **7. *Infrastructure Support Structure***

### **INTCS M-6**

Regarding strategic areas that needed to be improved, the respondent spoke of the following areas

- a) General infrastructure was poor in Kannur. Road transport was a major hazard with narrow roads and low wires.
- b) Modernization of production was never a priority in the cluster in the early days of the textile up gradation fund. During this early time, Tamil



Nadu's utilization was one of the highest in the country. Meanwhile Kannur has not been rapid in its responses. It has shifted from whether to hold on to handloom roots or actively embrace modernization and this policy dithering has affected infrastructure development. In Kannur only three to four firms had utilized the TUF till that time.

- c) Industrial water supply is an issue that has not been taken up by the state government as water reserves are constantly decreasing in the region.
- d) The use of ICT (information and communication technology) in exports has to be increased. Though a great deal of communication does take place through these methods, better use of communication tools was a requirement.

#### **8. *Second Tier Producers –Cooperatives***

##### **INTCS M-2**

In response to the question about whether cooperative societies could have exported on their own-respondent mentioned that although they were being given a lot of encouragement for the same by the government, consistent export had not happened as yet. A few cooperatives had exported by themselves but had recognized the difficulties. No cooperative society had consistently exported.

##### **INTCS M-5**

A significant aspect has been the constant tussle between handloom producers and exporters. The reason was that originally 95-100% of production was either done within export facilities or own weaving facilities of exporters or they used the cooperative societies.

- a) These facilities were politically managed and governed by associations of weavers and political representatives. These weavers were able especially in earlier times, to deliver enormous value to export firms at rates which were acceptable to them and beneficial to the cooperatives.

- b) The cooperatives were preferred production points when export markets levied preferential duty cuts on hand-loomed products. This was during the MFA period. A strong preference for handloom was there. This benefit appeared to fade after the MFA as all fabrics irrespective of origin were having uniform duties. This loss of benefits to exporters as a result of cooperative production made them shift their production base to power looms first within the cluster, and later as cost became more of a concern to buyers, to low-cost power loom centers for home furnishings like Karur, Erode, Salem etc. This was a move that though gradual, was viewed with some asperity among cooperatives, formerly the centers of production and preferred location for high quality products. Loss of preference for hand loom fabric by buyers meant that exporters began to prefer less expensive production sources.
- c) This was take up as a serious issue and was politicized. Many political parties attempted to win votes by politicizing this issue. But the loss of demand for handloom is linked to the end of the Multi fiber Agreement and not a calculated move to reduce production from this source. Many societies suffered the decrease in demand for their products and many closed down because of the heavy loans and lack of work.

**Memo:** Despite cooperatives losing their preference in Kannur for manufacture of export oriented products, this has not caused a very significant loss of market or sales volumes over a longer time period. There was a significant rise in handloom fabric consumption in the domestic market. A concerted effort by the state and central government offices concerned with handloom promotion have been working towards increasing handloom consumption as a means to ensure their survival. The insistence of handloom cotton uniforms for government school students, the directives of wearing handloom cloth based garments at least once or

twice a week, and the frequent festival related fairs and marketing efforts have succeeded in enabling weaver societies to be sustained, and to increase their turnover. Weaver cooperatives are well established in all states. They represent a quasi governmental establishment that has strong roots in socialist philosophy with the objective of shared wealth and management. Strong governmental support has traditionally been there but this has not been helpful in overcoming problems.

Government at center and state has taken this up and a subsidization policy has kept the sector going despite the fall in marketability of the products or lack of concerted efforts toward marketing produce. With this support has been the government thrust towards preserving the artisanship and craft based local skill of the individual weavers, by highlighting their products through fair participation, new product development and new technical training workshops support for marketing, design consultancy and design development support by linking with premier and national level institutes like NID, NIFT, overseas fair participation support and new technical training and skill development workshops.

#### **9. *Government Support To Export Sector***

##### **INTCSM-4**

Duty draw back scheme of the government at 4-8%, packing credit and allowance and insurance provision through ECGC was utilized by the company

##### **INTCSM-5**

Respondent went on to discuss about the textile center at Nadukani. This was first rejected by the state government when it was proposed. Then the association of exporters from the district, which was then called Kannur Handloom Exporters Association (KHEA) tried to involve the central government funds for the same. The private entrepreneurs were able to get clearance for a project under the private and public ownership of 40 crore project where 20 crore was approved by the center and 20 crores by Kannur businesses and the state government.

He was of the opinion that speed of implementation gets reduced due to the government red tape. Though the project was approved it had been delayed by the changing governments at state level and district level politics, and because of a lack of focus.

#### **10. Government Support To Producers**

##### **INTCS M-2**

Respondent made the observation that across the country, Tamil Nadu had been most active in technologically upgrading their facility and increasing their production base. Greater investment had been done in increasing type of power-looms, other support activities, quality management systems and certification mechanisms so that the industrial clusters like Tirupur and Karur had established the infrastructure for high levels of production.

##### **INTCS M-3**

As a possible strategy to overcome overcapacity problems the company was thinking of using the benefits that government was providing for cooperatives. None of the benefits that government was providing for weavers accrued to weavers working in private firms, though the wages were not significantly different. His aim was to hive off a part of his factory or provide a VRS scheme to a group of these weavers and reconstruct them as a cooperative. They would be supported by the minimum wages and government schemes. The firm would also be able to get some assistance in supporting them. They would also be able to have access to work from private sources.

**Memo1:** Despite the presence of workers union in the factory and many issues of discussion, it was a fact many of the employees had been working at the firm for more than 15 years, and among the weavers, even longer work relations. This was a huge workforce of handloom based weavers and support staff who had lived and worked at the firm for most of their working life and were incapable of venturing into new areas at this late stage. The firm was also burdened by a huge unutilized

handloom capacity due to the inability to price at handloom rates for more recent buyers.

**Memo2:** The respondent remarked that handloom prices were the highest prices, but it was increasingly difficult to expect buyers to be willing to pay these prices because it was hand loom. The firm was doing most of its production by using the power looms based in Kannur and a minimal amount of handloom production was done to give the workers employment. This was done not because it was the best arrangement but the length of the relationship between the firm and the workers prompted this approach. The socially embedded nature of the industry, and the linkages that the firm had with the workforce, the length of the working relationship, and the role of the firm in their welfare, were issues that could not be done away with. The respondent was genuinely concerned by the welfare of workers and the ties with the weaver community as well as relational rents could not be ignored).

#### **INTCSM-6**

The reason why the respondent felt it was possible to utilize aid from the government or to make use of the incentive schemes to generate revenue was because of the many expected government support initiatives that were being given a strong thrust like:

1. *Handloom village:* an initiative of the central government- a model village needed to be developed showing the evolution of traditional handloom, the history, the evolution of looms and other machines, handloom pictures as a way of life. This is especially significant in handloom predominant clusters or where handloom was a trade like Balaramapuram, Chennamangalam, Ikkat, Chanderi etc. This as a tourism initiative had a great scope because there were many such villages or regions in India with caste based trades like weaving, crafts, metal etching, reed work etc. As an initiative it has three fold benefits:
  - a) Source of revenue for government, if well maintained, as a heritage tourism initiative.

- b) Source of livelihood for weavers and trades men in the area who may not have the wherewithal to go elsewhere.
- c) Enables the traditional crafts and practices to be well preserved and to be propagated through exhibitions and sale of products.

**Memo:** When this scheme of central government which was proposed by the respondent as a means of improving the lot of traditional handloom weavers, it was opposed by the Panchayath. The respondent offered to provide the land for the same from his own land holdings.

In many discussions it seems that though central support could have been harnessed, the state level machinery did not or was not willing to utilize the contacts and better business sense of private exporters who in fact had strong traditional linkages with the local weaver community. As an example the establishment was started by the respondents grandfather, who was a weaver belonging to the Saliya community. Despite these links there was no real effort to obtain the benefit of their business contacts or the strength of their lobbying which could have been a powerful force

2. *Urban Haats:* this is a scheme of the directorate of handlooms and handicrafts of the central government to provide retail space in towns and cities in the form of a bazaar, or a collection of shops and salespersons or craftsmen where different cooperatives or handloom producers could rent space and sell products and benefit from the interest of the public in regional crafts and fabrics. This was a successful scheme that was working in Delhi and Rajasthan where certain regions were commissioned as 'haats' or 'mandis' and people and products used the space (rented to them) for selling their local or handmade products.
3. *Kritika* – this was a scheme aimed at the poor individual weaver who was not organized into cooperatives but were single producers doing good production for exporters. Despite being part of the handloom producers

they were not given their due because they were not organized into groups. They are not able to secure benefits or subsidies provided to cooperatives because they were individual weavers. They were a significant group that was doing a lot of production but was not getting the benefits from the government.

**Memo:** In looking at the way in which Government support to the home textile sector was given, one could identify a few trends

- a) State government emphasized development of weaver cooperatives: the programs were directed towards management of their internal organization, increasing their export orientation as well as enhancing their existing skill and infrastructure
- b) Central government emphasised the enhancement of the capabilities of the export sector through a number of export based schemes
- c) Despite being a revenue earner the state government did not actively promote the home textile export industry of the region to any great degree. Most incentives were directed towards cooperatives.
- d) TUF scheme, Capital Goods Import schemes and Integrated Textile Parks Schemes, SEZ scheme of Central government not being emphasized or promoted enough at state level.
- e) Many cluster specific improvements or developments have been pushed through by the strong thrust at central and state government levels by the association in the cluster. The exporters association formerly known as the Kannur Handloom Exporters Association but now as Kannur Textiles Exporters Association given the fact that a huge number of firms use out-of- cluster sources for fabric manufacture and no longer emphasized handloom as one of their key selling USPs.

- f) Institutes of national repute in technical training and design were becoming established in the cluster. The respondent claimed that this was not because of the states strong push at the center but the private associations' continuous activities towards getting these established at Kannur.
- g) Infrastructure related projects like integrated textile park and airport was bogged down in procedural delays that were at the state level.

#### **11. Exporters' Private Association To Aid Industry**

The private association of exporters- the Kerala Textile Exporters Association formerly known as the KHEA – the Kerala Handloom Exporters Association had played a major role in the cluster's history- getting recognition and in enabling many central government schemes and funding to be utilized within the cluster.

**Memo:** Despite the important role the association had played there were no group decisions between the association and government. Exporters were never considered as core strength of the cluster. The association with the aid of the government may achieve useful results for the cluster but the private association has never been encouraged to take part in decision making.

The lobbying of the association has been useful in getting recognition to Kannur as a 'Town Of Export Excellence'. It has been instrumental in getting approval for the Integrated Textile Park at Nadukani, for lobbying for the International airport and has played, along with the NMCC (North Malabar Chamber Of Commerce) a major role in obtaining the Geographical Indication status to Kannur Home Textiles.

#### **INTCS M-5**

It becomes necessary to highlight the role of the private association in the cluster. The exporter's association was important because it was central in enabling combined action for working towards a common purpose. This had an important role



especially in the late 80s and early 90s when trust between firms was at its lowest ebb. The trust among intra cluster members had fallen because of the certification issue and the move by some firms to get power loom products falsely certified as handloom.

The respondent in question worked around this atmosphere of distrust to create a working group of colleagues involved in the betterment of the industrial cluster by deepening personal ties between firms.

**Memo:** It was seen that problems faced by the cluster of firms or by the export firms needed to be seen as a group and not as individual problems or company related problems. It was necessary to view problems in their totality and to interpret their effect on the firm.

The history of the association goes back to the 1950s as that was the time the exports were started. It has not been a continuously dynamic organization but has worked towards unified goals at some times and not so in others. The reason for this may have been because it appeared to be driven by a few people with others not being proactive enough.

## **12. *Roots of the Industry- Effects of Firm Lineage***

The respondent was also Secretary of the exporter's association of Kannur as well as the region's chamber of commerce (North Malabar Chamber of Commerce) at the time of the study. He has held many governing roles in executive bodies, associations and panels associated with the betterment of the industry and has been instrumental in scripting a great deal of decisions involving the industry and the region.

**Memo:** Contact with such a figurehead of the home furnishing industry in Kannur was both necessary and planned. It became clear through some of the general interviews and focused interviews done with other knowledgeable individuals from the region and linked to the industry, that the person in question would be able to provide invaluable insights. He was mentioned as a person who could give crucial or revealing information about the industry, an active and tireless worker

of the industry and a key negotiator and policy informant for many of the decisions involving the public policy and private participation of the industry in government lobbying.

### **INTCSM-1**

The interview began by a description about the history of the industry. The respondent said that exports in Kannur had a 65 year old history. 80-90 percent of exporters belonged to Kannur itself. Entrepreneurial families lodged within the community and which were rooted in the region had set up. In fact none of the migrants from the Travancore region and central Kerala who migrated to the Malabar region, who established themselves in the hilly regions of Kannur and Kozhikode have taken up this trade, though it must have been considered as an option for a means of livelihood. The present day businesses are mostly run by the second and third generations of these families which were originally based from the region.

**Memo:** The entrepreneurial roots are indeed a striking aspect of the business given that the roots of the export industry go back to the 1950s. Close on the heels of the Indian independence the commercial links with export markets was established. No other area in the state can claim to have entrepreneurial roots so early back and even now the region stands unique in that though it remains locationally isolated and infrastructurally under privileged it still manages to garner 95% of home textile export from the state and 40% of the total exports from Kerala (recheck).

The respondent went on to describe how the region sprung into international recognition through “Kannur Crepe”. This was a highlight of the earlier days of the industry when it consolidated its position in the international textile markets of the time. Crepe was made of 20s high twist yarn that when woven into fabric generated an elastic or wrinkled texture that gave fabric a stretchability or tensility. There was fabric innovation that was new-to-the-world. It was produced as both garments and fabric and not only upholstery for homes. The effect of

kannur crepe lasted from early 1970s to the early 1980s. As popularity waned, and duplicates came up, crepe no longer sold in such large volumes. From the late 1980s onwards, furnishing fabrics and upholstery type fabrics which were thicker, denser and of greater width and suitable for dressing up homes began to be produced.

**Memo.** Importance of this sector was highlighted when he observed that 25 years ago 5% of the total production from the region was made-ups but now up to 90% were made ups that were being stitched and finished in Kannur itself and packed for final retailer. They were labelled and tagged for shelf display from the factory itself. This highlighted the growing importance of this sector as entire production and packing was being done in the region.

#### **INTCS M-2**

As different firms in Kannur started at different times, it had a strong effect on the nature of the business, the kind of workforce and facilities and key strengths. Some firms like firm M was started much earlier and thrived during the boom time of handloom- the 'crepe' revolution. At this early stage many high quality buyers were there (doubtless from highly quality conscious and rigorous European buyers, mostly German and nearby Scandinavian countries).

The firm had its roots or beginning in the late 1800s (recheck). It was started by the grandfather of the respondent- a Saliya weaver. But the respondent joined the firm in the mid 1980s; It was a good time for handloom. 15-20% profit was normal and the firm never suffered a dearth of buyers. It was one of the well established weaving mills at that time as it entered handloom weaving as a business much earlier. It was one of the early entrants into the field.

In 1988-1990s, late eighties and early nineties, this was a time when buyers began to express a need for reduced prices, improved costing and to reduce the margins. This need encouraged firms which entered the business later, in the late eighties and early nineties to emphase the ability to reduce

prices, streamline production and manage costing. Firm S was an example of a firm which did this. Their greatest investment was towards reducing the cost of production. They never invested in handloom weavers or weaving, preferring rather to outsource these functions and utilized the functions of secondary suppliers for this purpose. This decision enabled them to build flexibility into their working.

This was in contrast with the firm M. At the early times it was considered one of the best firms or one of the dominant entrants that capitalized on a first mover advantage. But the drawback was that by the 1990s when the need became more flexibility, reduced cost and control of cost, the company was burdened by an ill timed investment in building handloom capacity. The firm M had bought the best weaving unit of the time in 19 from the sons of Samuel Aaron; Samuel Aaron was one of the first entrepreneurs into this industry at that time and a figurehead of the industry. This factory was one of the best factory set ups at the time with a large area of weaving sheds having 150 looms. At the time this appeared to be the right decision as demand was high for handlooms. The situation changed quickly by the late 1990s and the firm found itself unable to reach the levels of profit it could have had, if it did not have a permanent weaving set up with 80-100 weavers depending on them for their livelihoods. This additional weaving infrastructure was bought at a time when handloom cloth was in demand, but now the situation was different.

**Memo:** Maintaining a fixed establishment of this size and its attendant workers was creating a huge strain on the company. But they did not think of shutting down because of the number of livelihoods that depended on the company. Earlier even six months back one third of the orders of the company was needed to sustain the factory and workers, but now because of the recessionary climate firm was getting fewer orders and was finding it very difficult to sustain the factory and the weavers. He did not believe in suddenly

closing the additional weaving unit by labeling it as an NPA because of the dependence that many workers had on it.

High fixed costs were especially harmful to the firm. Firms like Ambadi exports were some of the newer companies which had dispensed with hand loomed production. Everything related to production, except the generation of new samples and the made up manufacture was done outside of the company.

### **INTCS M-3**

The respondent mentioned some key years in the history of the industry. In 1844 the Common wealth Trust Weaving Company was formed as the Tiruvepathy Spinning Mills. In 1858 the first spinning factory was started in Mangalore by the Basel Mission. In 1860 Mascot weaving mills started.

### **INTCS M-4**

It was in 1992 that the firm M bought the Kolapuram unit, a facility of 150 looms in a bid to increase sales. This doubled the loom capacity of the firm. The existing structure of the firm factory had been in existence since 1940 while the weaving unit at Kolapuram was added in 1992.

### **INTCSM-8**

History of the firm M was described by the respondent. Mr. P. Karunakaran was a Saliya weaver. He was a member of the weaving community who started the Shri Viswanatha Weaving Works in the 1950s. He was the great grandfather of the respondent. Mr. C. Raman, grandfather of the respondent started Viswavani textiles in the 1960s. Mr. C. Sekharan, father of the respondent, changed its name to M when he joined the firm in 1968. He was at the helm from 1968-85. It was during his time that the first exports were carried out. From 1970s and 1980s that 'crepe' exports dominated. It was demanded in such large quantities that entire fortunes were made during this time, by many export houses, during this period. e.g Dhanalakshmi Weaving Works, West

Coast Weaving Mills, Great India Textiles etc., were some of the first generation exporting companies in the cluster.

It was during this time that a huge quantity of business was done by a set of firms or large scale family enterprises in the region. Private enterprise thrived a great deal in Kannur with the exporters having good market share and many new families that were not of traditional weaver based castes entered into the fray. The north Malabar region became known for their weaving establishments and towards north of Kannur as well towards the south of Kannur till Kozhikode, regions like Badagara, Chombala etc weaving establishments became common. It was usually done in home run establishments and smaller weaving cooperatives. Women became associated with the pre loom activities and carried this out in their homes, often very close to the weaving sheds. This became the general profile of weaving firms rarely engaging in direct exports themselves but supplying to agents, sellers agents having linkages with other sourcing districts or areas and procuring from their individual producers, compiling orders and sending shipments from Bombay or Gujarat to importers or wholesalers.

### **6.2.5 Inferences from Individual Case Analysis of Firm M**

#### **A. Sources of Rent**

##### **1. Firm Rents**

**Technology.** : Recent modernization in weaving technology had not been done. Not very significant technology up gradation compared to other clusters like Karur and Tirupur.

- 1) Latest improvement in technology was in 2000- at this time some changes in post weaving processes, like cutting machines, stitching machines were installed. Needle detector machines were installed also.
- 2) Kier drying instead of air drying was installed. This was important equipment especially in the monsoon when air drying was difficult.

- 3) Some of the early improvements in 1995, when the present owner joined the firm were related to pern winding, bobbin winding machines which were put in to save the labor cost.
- 4) Roller dyeing machines were installed as an improvement over vat dyeing.
- 5) Fabric treatments like lamination, fire retardancy, water proofing etc was done in Coimbatore on a job work basis.
- 6) Technology was not a significant source of rent for the firm.

### ***Human Resources***

Many workers had been with the company for decades. This meant that they had a high degree of loyalty and experience with respect to buyer needs. This also acted as a limiting force because the firm was unable to streamline operations, or work on increasing productivity. The firm suffered from excess infrastructure for handloom weaving and a resulting staff of weavers which it had acquired in the early 2000s when demand for handlooms was high. It decreased soon after and the firm could not depend on handloom production as buyers started to demand lower prices of products which could not be done using handloom, being a labor intensive process.

The result was that firm had a burden of handloom weavers and support staff that it needed to maintain. But it was not possible to hive off the unit or sell the excess capacity as these workers had been on the company rolls since his father's time. A social embeddedness and linkage to tradition governed his actions.

A five member team was suggested as being the basis for coordination and direction of activities related to meeting buyers needs. The reliability, quick response, spontaneity and quick time to action were mentioned as factors that enabled the firm to meet buyer requirements. Hands on problem solving were

called for and the staff members worked towards finding the solution as fast as possible without waiting for the chain of command to take action.

The human resources of the firm was an important source of rent

### ***Organization of work***

Work revolved around developing new samples for fairs. Firms activities centered on product development and order execution for the fair visits. 20 staff members were involved with new or improved sample development on a daily basis. 10 staff members dealt with buyers concerns on a day to day basis, this was to ensure queries were answered and status of their orders mentioned on an up to date basis.

A key source of rent was the speed of execution. Incorporation of changes and modification of products, sample options made and execution of changes were done very quickly. Requests were taken care of very fast.

Organization of work and system of execution of orders was a source of rent.

### ***Marketing***

Use of fashion designers in buyer markets was done. They look at market trends and provide information about the same. Sample design development, took into consideration fabric type, and construction. The samples and costing was assessed and products developed as per designs. It also acted as firm agents in the buyer markets. They visited, or tried to market firm products to store retailers, stand alone shops and importer distributors, to place orders.

Fair visits took place at least twice a year. There was an emphasis on visiting one new fair every year. They were targeting new regions. 70% of budget was for new sample development.

Marketing through fairs and designers was a source of rent



### ***Research & Development activities***

On a day to day basis five to six samples are in various stages of production. This is an important source of rent as buyers in fairs expected to see new or innovative products. They were strongly exposed to yearly trends and seasonal changes through fair visits. Sample development for specific buyers succeeded fair visits. Enquiry generation was higher after fairs and based on the ability to provide samples that met their specifications. High density of in house weavers enabled this.

### **2. Resource Based Rents**

Soft water in the region caused the dyes to come out with richer and deeper tones. The frame looms endemic to the region, were heavy and wide. They enabled low count yarns and thicker yarns to be woven, and held stiff and tight by the beating action of the loom. It enabled the thicker fabrics suitable for upholstery or furnishing purpose to be produced.

The yarns was put through at least eight hours of soaking and through preprocess activities that caused filaments to swell and absorb more dyes. The length of the processing increased the absorbency of yarn and depth of tones. The brightness of dyes was also brought out by the lack of salts in the water.

These resource based rents were being eroded because different dyeing processes were being used. The use of frame looms was coming down and maintaining weaver workforce was becoming more difficult. Decreased availability of soft water was also seen.

### **3. Relational or Chain Rents**

The link with some buyers went back fifteen to twenty years in some cases. Some of these were top end stores with high quality consciousness. These were still served without any quality problems. The firm utilized individual weavers or families in the vicinity and cooperatives to a lesser extent. They had a greater

patronage of the Kannur based power looms in the region and preferred this production source because of the greater control over quality and output that it offered. It was also good in quality thanks to the inherent weaving skill of the community and the influence of the Basel mission weaving traditions. Handloom weaving was done in-house to the extent of 30% of production. The degree of utilization of other supply chain participants were

- a) Power looms in Kannur 50%
- b) Cooperatives and individual weavers 20%

As a source of rent, relational or chain rents were beneficial to the firm but down the chain it was becoming difficult to obtain competitive advantage from it.

#### **4. Exogenous Rents**

Under this comes policy related rents of the government. It is important to consider the schemes of the government and the benefits that these have given exporting community and the extent of usages.

Infrastructure as a source of rent is not of much significance.

#### **Factors Depleting Rents for Firm M**

- a) Adopting new practices and improvements in performance difficult because of the family oriented nature of the enterprise and the huge number of workers who had been with the firm for a long time, and could not be fully utilized because of the lack of demand of handloom production.
- b) Weaving capacity acquired during the prime of the firm, when handloom products were still in huge demand, weighed heavily on the firm at time of interviews. It was a huge fixed cost component and unutilized capacity. The inability to overcome the handloom orientation, despite it not adding value to the firm was a barrier to rapid growth of the firm

## **B. Governance**

### **1. Legislative Governance:**

Four kinds of legislative governance or rule setting done:

- a) Management standards: ISO or SA Standards are examples. The firm had ISO standards and RAP standards in the US market.
- b) Product specific standards – AZO free dyes required to be used and REACH standards
- c) Regional standards (BSC I): Business social compliance initiative is a standard set by 220 EU companies. It is set by a group of EU Countries. Once a supplying firm met certain stringent standards they could register themselves on their website. Online membership was allowed. Prospective buyers could see on the website the firms which met the compliance initiative and be assured of certain basic quality parameters. The suppliers were assessed yearly by SGS and RINA, Italy.
- d) Firms own legislative standards. The firm had its own laboratory facility for testing and ensuring color matching. The firm had its own standards for each product class or category of products that for some of the oldest buyers were sufficient.

### **2. Judicial Governance:**

Three types of buyers were associated with the company

- a) 33% were top end stores with high quality consciousness. They focused on non tangible competencies of the buyer such as the ability to follow ethical trade initiatives, or SA standards. These buyers required proof of certification. At every stage records needed to be kept, and these were checked annually. High responsiveness to their requirement and quick action needed to be taken with no compromise on standards. These firms were exposed to third party governance by NGOS.

- b) Costs of implementing standards were high. The suppliers for big brands with a strong emphasis on working standards had an additional burden of ensuring that these standards were maintained but were never given any consideration in costs for establishing the parameters they were required to maintain. This put pressure on producers to use low cost techniques to lower their cost of production as their margins were squeezed. This affected their credibility. Buyers were not compensating for measures suppliers had to undertake to adopt standards.
- c) 20% of firms had very high standards of product and process. This was maintained by
  - i) *Sealer approved sample*- first or initial products produced according to specifications sent to buyer or laboratory indicated by buyer for testing. These are labs like SGS or Intertech. The results are sent to the buyer who then gives approval. This is called a seal of approval.
  - ii) *Online inspection*- this is done by buyer representative. Agents play a key role here examining quality maintenance at three phases. The initial activity at the start of the production line is checked to ensure specifications are met before the start, online inspection on the assembly line and final product inspection from the master carton.

### 3. Executive Governance

There were few directives from buyer regarding implementation of standards. Buyers specify the standards that suppliers must have or if there are any issues regarding safety and placement of labels or tags that they expect to be followed. They also expect solutions to be incorporated by the firm.

- a) Use of within cluster organizations like the Textiles Committee for training and implementation of standards.
- b) Directives from buyer regarding product specification or sample characters- this is when the sample is sent for approval.

## **C. Upgrading**

### **1. Improving Process Efficiency**

#### *Within links*

- a) Within the link or firm use of designer based in the EU market was a source of rent. Through this links the firm is able to get better information about the colors and designs of the season and what are the moving designs or motifs for that specific season.
- b) Though recent modernization has not been done, some improvement in equipment was done in 2000, to improve finishing. Needle detection machines, cutting machines, stitching machines, kier drying machines etc.
- c) A well coordinated group of individuals at the top help to manage operations. Their long experience enables quick response to buyer requests and queries, high trustworthiness, reliability and fast time to action.
- d) The firm had not been able to make sufficient changes in the organization within the firm, or to undergo large scale technology changes, possibly because its handloom linkages were limiting it. Future growth plans were well in place, with the firm having invested in the Integrated Textile Park in acquiring land and providing an expression of interest. The respondent was also strongly involved in the development of the industry through the association of exporters, being its secretary. The various infrastructure related improvements to the region, the commissioning of the ITP, the approval for the Airport, the establishment of NIFT, Kanuri, the development of an industry led course plan for the bachelor's level courses in fashion design at the local university, development of a design studio, etc involved a strong interaction by the association and liasioning at central government level.

**Between links**

1. Use of power loom firms within the cluster when handloom cost became restrictive. Buyers began to demand lower product cost. The use of the Kannur based power loom firms offered
  - a) Lower prices than handloom, though it was slightly higher than Karur
  - b) Greater productivity
  - c) Good quality and finish- as these weavers had a strong tradition of weaving
  - d) Able to monitor all stages of production, since they were located within the cluster.

**2. Introducing New Products or Improving Existing Products**

**Within links:**

As a policy the firm believed that developing new samples was central to their success

- a) Use of trade fairs as a tool to focus on new countries and customers: Focus on attending new market promotion measures, buyer seller meets and B to B meets in new countries or regions, to expand market.
- b) Home based fairs: a greater focus on fairs or meets that combine home based needs and do not focus just on apparel or home textiles- this has been useful for firm to expand their lifestyle based product range, or made up products range.
- c) A section of firm employees: technical staff, are engaged in developing new samples on an ongoing basis. The budget allotment for the same is also high.

**Between links**

- a) Meeting existing buyers on yearly basis: the fairs act as a meeting ground between the firm and the buyers who have also been their customers for years. They are able to discuss product changes, suggestions for new products, the trends for the new season etc. personal contact and communication on a one to one basis is possible by this linkage that serves to increase the firm's ability to come out with contemporary products.
- b) The promotional events act as a meeting ground for fulfilling enquiries of prospective buyers.
- c) Focus on emerging categories of products like beach items, floor cushions, poolside mats, room rugs, room specific coordinates etc
- d) Selling to off season markets to offload stock.

**3. Changing Mix of Activities**

Efficiency has been somewhat improved by changing mix of activities.

- a) Low value activities outsourced: Use of the home workers in the proximity to do preprocessing activities like winding and warp development.
- b) Doing in house handloom production just sufficiently enough to cover the costs of running the handloom intensive factory, and focusing on Kannur based power looms for fabric production.
- c) Finishing activities improved and equipments for the same installed.

***Between Chain Links***

The use of finishing treatments has been taken up to increase final product look and feel. Within the cluster itself stendering and calendaring is done and out of state lamination is done.

## 6.3 Individual Case Analysis of Firm H

### 6.3.1 Introduction to Firm H: A Bird's Eye View

**Key Selling Proposition:** The selling proposition of the firm is 'cotton charisma'. The explanation is given as such in the product brochures:

“Weaving cloth by hand is one of the resilient aspects of Indian cultural heritage. A tradition that lives on in full essence here at XXX. The artistic workmanship and intricacy achieved in handloom fabric is exquisite and beyond the scope of even modern machines. Hindustan textiles weave out its charming fabrics on traditional floor looms, touched only by the skill and enterprise of artistic craftsmen.”

#### **Production Facilities**

The original buildings of the factory is located over two acres of land in the outskirts of Kannur, at Alevil, Azhikode one of the smaller harbors of the district. It is about nine kilometers from the city. Only premium quality yarn and superior materials are used in the weaving process. At every step, quality checks are in place to ensure that only the finest fabrics are created. The firm has an in-house design team, which together with the skilled weavers create an assorted range of products and fabrics. All products are azo –free and eco friendly.

#### **Awards**

The firm is a recipient of the 'Certificate of Merit' for two consecutive years, from 1995 to 1997 and 'Silver Medal' for the year 1997-'98. It has also been conferred the status of Export House by the Ministry of Commerce, Government of India.

#### **Product Profile**

Bed Linen: bed or pillow covers, sheets, quilt covers in checks stripes and designed with embroidery or appliqué.

Curtains: colorful and elegant. Stitched and woven from heavy textured or light weight cottons and muslins.



Table linen: An exotic array of table linen, and coordinates consisting of tablecloth, placemats and napkins.

Kitchen linen: A host of kitchen towels, potholders, oven mittens, and aprons.

Dhurries: in cotton, and colorfully designed, they are in varied colors and patterns, in easy-to-maintain cotton, which is washable and storage friendly.

### **Destinations**

Major markets are UK, Sweden, Australia, Japan, France and Germany. The firm plans to have an increased emphasis on markets like USA, Canada, South America and South Africa.

### 6.3.2 General Value Chain Map of Firm H

**Table 6.2: Value Chain Map of Firm H and Approximate Value Contribution to Final Product Cost**

Categories of buyers	Department store chains (not mass market)	Importer wholesalers and distributors	Branded importers
Retailer/final buyer margins	20%	15%	17%
Designer margin	12%	10%	20%
Distributors margin	} Accounts for 30% of final product cost	} Accounts for 20% of final product cost	} Accounts for 30% of final product cost
Trucking to warehouse			
Destination port costs			
Shipping and forwarding agents	5%	7%	10%
f. Retail packing/ master cartons/loading	20% of product cost	25%	30%
e. Steam Pressing, folding	Within kannur facility	Within kannur facility	Within kannur facility
Quality inspection			
d. Fixing of product labels			
quality inspection			
c. embroidery, finishing works, appliqué, stitching	Within kannur facility	Within kannur facility	Within kannur facility
b. accessorizing, stitching and finishing			
a. Fabric cutting according to design	Within kannur facility	Within kannur facility	Within kannur facility
8. Made ups manufacture	Out of state facilities (printing)	Out of state facilities (printing)	Out of state facilities (printing)
7. For furnishing fabric - steam pressing, rolling, vacuum packing	Within factory	Within factory	Within factory
6. Return and inspection	Within factory	Within factory	Within factory
5. Treatments – lamination, calendaring, stendering, flame resistance, water-proofing out of state	Within factory	Within factory	Within factory
4. Inspection of fabric after production	Treatments of fabric done within kannur facility or out of state facilities	Treatments of fabric done within kannur facility or out of state facilities	Treatments of fabric done within kannur facility or out of state facilities
3. Production of fabric outside of company	Individual weavers in factory surroundings 20%	Power looms in Tamil Nadu 40%	Cooperatives in Kannur 40%
2. Production within company	Sample development	Finishing of made ups	

### **6.3.3 Apriori Codes: Evidence from Interview Transcripts**

#### **6.3.3.1 The Sources of Rent Within the Firm**

##### ***Resource based rents***

##### **1. INTCSH-1**

The interview started off with a discussion about the strengths of Kannur. Raw material shortage, price fluctuation and continuously increasing cost of raw materials were affecting all companies, but two factors that were inherent to the region were

- a) Quality of water: the soft water abundant in the region helps in making the appearance of dyes brighter and improves absorbency.
- b) Quality consciousness: This was high among workers in the region. Conversion of difficult designs into fabric was possible due to the high skill levels of weavers

He felt that design of fabrics made in the region used to be a strength but now it is copied. Firms in Panipat, where rugs are a major product category, have entered into home furnishings as well in the recent years and are adept at copying designs inherent to specific regions. Design exclusivity of the region is no longer a barrier to entry.

##### ***Technology rents***

##### **INTCS H-2**

The discussion began by examining what were the possible rents of the firm region, according to the case study protocol. Technological infrastructure and use of technology was not a key strength as the firm had a number of buyers who emphasized the hand loomed nature of the fabric. Earlier the firm had most of the production as handlooms as up to sixty percent of its customers insisted on the hand loomed origin of the fabric. But now this was falling and the percentage of buyers insisting on price as a benefit, or lower price was increasing.

**Memo:** Strong technology or physical infrastructure was not a key strength of the company since some of their biggest buyers (revenue wise) insisted on handloom

origin. Expression of this benefit was through linkage of the firm with cooperatives to produce hand loomed products was especially strong in the pre-MFA era.

#### **INTCS H4**

Cabinet dyeing machine was installed as an alternative to vat dyeing machines to ensure greater color uniformity. It enabled greater volume of product to be dyed. Usually dyed and sent to second tier producers. The firm had stitching units at three different locations which was well equipped with Juki machines of 10 -15 numbers each. Manual cutting machines, steam irons, manual irons and vacuum packing machines were all part of the infrastructure.

**Memo:** It is seen that there are not very significant technology rents. In early 1990 in-house weaving was done away with.

### ***Research and Development as Source of Rent***

#### **INTCS H-2**

R&D as an area of development can be seen. New sample development involving both new weaving techniques, different kinds of yarns and counts and involvement of the buyer is seen. It is a combined process between buyer and firm involving second tier producers.

Sources of rent related to new product development happen in the following ways:

- a) Approximately fifty percent of buyers have their own design development and their department develops the designs for a current season. Only sample development is done in the suppliers premises. The company H takes up the sample development function for these companies.
- b) Thirty five to forty percent of buyers do not have product development as a key strength, or lack the infrastructure for the same. They specify general guidelines or seasonal trends regarding colors,

textures, specific shades etc by the use of ‘mood boards’. Design development using the concepts put forward in the mood board is done at the supplier premises. Volume buyers like supermarkets and chain stores having lesser number of stores and which are not in the low price category come in this segment. Their need is design development and sample development.

- c) Ten percent of buyers have no specific ideas about color, texture etc. They expect good combinations and designs. They need less volume. They are usually exclusive stores or selected single store or boutiques having two or three stores. Usually less volume orders. There is a strong dependence on the supplier. Relational rents are seen generated in the chain through their contact with buyers up the chain and second tier supplying firms down the chain. The relationship is a mutually supporting one. The buyer expects suppliers to come up with good designs and color combinations.

**Memo:** The source of rents here lies in the ability of the firm to cater to different categories of customers. For the first group sample development is the key need, while in b and c, design skill of the firm is brought out. The ability to use learned skills, applying knowledge of new weaves, and putting innovative variations to these new requirements – this has been a successful strategy as firms are able to satisfy customers needs.

In the third group, complete faith in the ability of the supplier is seen. Reliance on supplier capabilities is seen. Exclusivity of designs needs to be maintained and high work component or labor component is more. But doing specialized designs acts as an enabling factor to firm. Taking up difficult designs using existing design knowledge, complicated product technology and weaving combinations, sourcing expertise etc needs to be used for new products.

Firm's role was strongly focused on using its internal strengths- the firm-specific strengths and chain strengths. The sourcing expertise and learned product and process knowledge is applied to new requirements specified by buyers, new buyer needs and innovative products.

### ***Human Resources as Source of Rent***

#### **INTCS H-2**

A key benefit mentioned by the respondent was the human resource capital of the firm. Staff at middle level has a relationship of 10-15 years of working within the firm. They have the experience of working with very high quality of product since some of the buyers demand very high quality.

Though attrition to a limited extent is seen at lower and middle levels, at higher levels of hierarchy staff have high loyalty and dedication. Because of the quality consciousness they get good referrals among buyers. The human resource capability is a source of firm rents among buyers.

The respondent also mentioned the group of quality control staff who has been with the company for a long period. The quality control staff works at different locations. They check work at cooperatives at the initial level and during production. They also supervise the dyes to be used for dying operations when dyeing is done at weaving premise. They specify the quality of dying. All the quality control staff is ISO trained. They gravitate between production centers within the cluster and at outsourced work sites like Erode and Salem continuously checking quality at different job sites.

The merchandisers and tailors who are in house employees again are long standing staff with excellent work ethic. Merchandisers are allocated to buyers. One merchandiser may deal with 2-3 buyers. One merchandiser is required to handle key buyer related orders. And 2-3 merchandisers are allocated to check merchandise at Karur.

**Memo:** The merchandisers have the freedom to accept or reject production of a weave as they directly deal with buyers. The merchandisers' experience is very important and of immense value to the company because of their quality commitment. They are all well versed in ISO standards and SA standards as certifying agencies have provided classes for the same on a three monthly basis, till certification occurred.

The human resource ability as a source of firm rent is seen. Relation between workers and staff is also cordial. This is also reinforced and evaluated on a yearly basis. The SA guidelines necessitate this.

The importance of worker relations in the firm is evaluated as a measure of judicial governance, as well. Performance relates goals are set by the firm every year. This is based on the buyer standards. This is assessed every year by each buyer. The standards highlight aspects like delivery, quality of product, response time, delivery accuracy etc. the buyers on a yearly basis are set supplier performance evaluation measures so that the suppliers can improve themselves. This is also evaluative measure for process standards of the ISO system that is diligently followed.

The superior subordinate relationship is more partnership based than a hierarchical one. There was a free and fair working environment where subordinates could voice their opinion. The atmosphere was egalitarian and supportive of workers as indicated by the confidence of firm to implement SA standards in a strongly socialistic district like Kannur.

**Memo 2:** The validity of the statements about work atmospheres was cross checked with conversations with workers who reiterated that work schedules were fair, work satisfaction was higher and work related tensions less. A mention was made of the philanthropy of the managing partner who singlehandedly funded and continued to fund the cancer treatment costs of one of his permanent staff.

Production relates software was used to make the production plan decided by the core team accessible to all. Between the buyer and company continuous and ongoing contact by mail and internet was done / production planning software enabled contact at all levels.

## 2. *Relational Rents*

Source of relational rents was seen when quality control staff and trusted suppliers (cooperatives) confidentially developed designs. One meter was sent for approval to the buyer and then confirmed. The sellers' agent who are usually designers working on commission in the buyer markets creates designs according to the trends in the market and checks whether it is executable by checking with the suppliers at Kannur. These designs are then promoted by her among individual stores and boutiques. This has been a most effective method to get sales.

**Memo:** The firm has benefited from the sellers agent in buyers market. Firm is able to increase the marketability of its designs and its chances of success by this method. There is also the learning that arises when the most contemporary designs are examined for do ability.

Relational rents are also seen in the firm's relation with other firms with in the cluster and with other chain partners. In the 1970 to early 1980s it was a good time for the region because of 'crepe'. The relationships among the firms that established themselves earlier were stronger. In the 1990s the firms increased in number as more players came into the region or started operations and the relationships were not maintained. The firms drifted apart. New generation firms started in the 1990s were different from earlier firms in that they had heavy investment in the finishing equipments and power looms but almost no investment in the traditional handloom production measures.

**Memo:** Between these two extremes there was a difference in the values driving these firms. Friction arose between the players in the cluster when younger or more agile firms began to capture traditional or older firms' business. KTEO



which was the producer's organization has been helpful to tackle government related issues. The cluster based organization has worked as a single group while working to enable government support to experts, infrastructure issues of the region, cluster based benefits, infrastructure of the cluster etc. but for all other purposes, the organization has not been able to enable cooperation, learning and working towards group goals. Rivalry is high among members. There is lack of trust, no joint action or shared production. Combined fair participation or market expansion is not done. Lack of trust among members must have harmed group goals. This is directly impacting the ability of each firm to get the benefits of being a group of productive firms.

#### **Relational Rents Down the Chain**

Down the chain the firm's relation with weaving cooperatives have been long term and grounded in trust. From the 1980s when the firm did away with its in house handloom weaving infrastructure, it has been depending on cooperatives and individual weavers. A strong association with the community and the social ties with the region have been maintained. The firm has the reputation for favoring cooperatives and giving them better prices than other export firm's

**Memo 1:** Sample development is one of the highly specialized tasks in home textile production. The new product development for the field is as complicated as apparel design where fashion trends, colors and seasonal changes are incorporated into new weaves, textures and products with high confidentiality. Usually this is an in-house process but for the company it is completely taken up by one society. It has the utmost confidence that new designs will not be leaked out. The benefits that the cooperative has by associating with the export firm are

- a) Consistent work
- b) Earnings far better than earnings from domestic sale of handlooms.
- c) Reputation. The Morazha cooperative society has an excellent reputation as a result of this inter firm association. Besides being one of the most profitable societies in Kannur, the work ethic,

commitment to quality, volumes sold and profit generated year on year makes it something of a benchmark among cooperative establishments. The reputation obtained by making fabrics of international standards, utilizing design strengths and weavers craft has an effect on the overall benefits the firm obtains. Converting paper or magazine based designs, or design suggestions to fabric require the design to be codifiable, and technically complex. Technical detail is needed not in terms of machinery for handloom weaving but in the skill component, design intricacy and unique weaves; they must also be able to implement certain protocols related to the product and the ability to meet attributes stressed by the company's key buyers.

**Memo 2:** Relational rents and chain rents are generated as a result of this relationship especially down the chain, in the relation of the firm with the society and in the relationship of the society with the firm. Key benefits are obtained. Barriers to entry are seen because this type of synergistic relationship is possible if export firm deals with high value or high profit oriented buyers. In this case the major buyers of the cooperative produced fabrics that were sold mostly as upholstery rolls. These were upper middle or premium segments that were exclusive wholesalers or distributors backed or promoted by individual designers or by strong designer inputs in buyer market. These buyers in many ways focus on the non tangible, aesthetic or 'feel' related benefits. These are called 'credence' benefits. These may relate to benefits like 'organic' cotton, following ethical trade or fair trade initiatives, 'hand woven' or 'handmade' origins that are of premium value to buyers of these materials, strong design inputs, or 'designer' fabrics which are valued by the segments targeted by these products. Or it may also be related to the social upliftment or societal benefits that the manufacture of these products do to the communities that manufacture these products. This is often a strongly promoted benefit.

**Memo 3;** The cooperative society was involved in exclusive production of the firms new designs and fabrics and were bound by contract in this regard. They were not to take up the production of fabrics of other export firms in the cluster. But this was not seen as a serious limitation because export orders are supplemented by orders for domestic sales or rebate sales. Moreover the cooperative firm was especially appreciative of the prices they received from company H. It was a price agreed upon by both parties and not imposed upon the second tier supplier. It was judged as fair by the society. The manufacturing exclusivity was hardly seen as a barrier to firm because the company offered one of the highest prices for handloom products manufactured by the firm.

### ***Organization of Work***

#### **INTCS H-4**

Computerization of the operations of the company was done in 1997-98. This was earlier than was done by other firms. In fact it was the first firm to adopt ICT enabled communication in Kannur. This enabled

- a) Streamlining work among export manager proprietor, quality supervisors and merchandisers etc.
- b) Buyers prefer and appreciate better a more streamlined and structured environment. A well designed and structured work environment where departmentation and tasks are well organized and in specific departments is an order winning factor. The workers' facility for rest and measures for safety and welfare must be put in place as it is important to buyers.
- c) New buyers are especially influence by the SA certification of the firm. The SA certification has been done by an Italian certification agency called RINA, Italy.

**Memo:** The surroundings or the company's physical infrastructure is very important to many buyers as this is often a feature that receives negative exposure in many developing country supply hubs. This is especially true of premium

buyers who may highlight non tangible producer related benefits to further their marketing efforts. In bulk buyers or smaller to average quality buyers the agents do the checking to ensure the said quality is maintained. The drawback is that it has increased establishment costs and wages which are directed by the SA quality standards. This calls for better employee utilization and better productivity.

***R&D Rents:***

This is seen in the ability of the firm to keep abreast with changes in fibers and products and a continuous emphasis on developing new products. New fiber combinations, trends in fiber mixes etc to be done, strong experimental emphasis of proprietor is an enabling factor. The team work of the key employees in the firm, quality control inspectors, supervisors, export manager and dedicated second tier suppliers worked together to develop new products I different combinations to enable company to meet the requirements. Combined effort goes into this.

***Work Organization Rents***

**INTCS H4**

The use of supply chain practices to streamline operations is carried out. Continuous reorder of materials is not done because of production variation. Company utilized milk runs to transfer and transport the raw material and semi finished goods between the production centers and the finishing/ or stitching units. These are located at three different points:

- a) At the factory- dyeing, cutting and finishing, quality checking and stores.
- b) Near the factory- stitching of made ups at two locations.
- c) At Chovva, some distance away, stitching unit is located.
- d) At Vytilla, Kochi, embroidery and stitching unit is located.

**INTCS H7**

A full certification by foreign firms for SA quality meant that

- a) Firm had a quality standing among existing buyers.

- b) A reputation for quality and superior design development acts as a source of rent. The firm tries to directly deal with the company and not thru agents.
- c) Company had better wages than most firms because the same is enforced according to SA standards. Better reputation and wages made it a preferred supplier.
- d) Among unions and local political group's strong acceptance because of its pro people policies, patronage of cooperative, better prices conferred to them, contributed to certification.
- e) Work atmosphere at Hindustan was better, less pressured and more considerate of worker needs.
- f) All workers within the firm are in official records and liable to receive all benefits. This is not the case for other firms.
- g) Temporary workers allowed leaving without difficulty. No barriers to labor and no suppression of them.

### **6.3.3.2 Sources and Types of Governance**

#### ***Legislative Governance***

##### **INTCS H-2**

The question was asked as to whether the value chain was controlled by lead firms the respondent felt that lead firms were significant especially in the value based segment. Firms like Wal-Mart and IKEA were important firms in the value segment where low price was the key requirement. Consistent average quality and fair wages to workers also was a key need of this segment since it had to follow stringent labor welfare measures as dictated by its social responsibility measures. Though high volume was there, it called for more manpower requirement for the stitching and packing. The need for specification of quality and cost was higher, and though the volume of shipments was high, supplier companies found themselves having to incur higher costs both to meet labor increase and to provide the regulated wages.

### **Judicial governance**

Retailers in this category did not exert much judicial governance, or sanctions against non conformance of supplies firm had more bargaining power and had more balanced relationships with their buyers. Company H was not much influenced by this segment because the goods they sold was for premium to upper middle class segment.

### ***Executive governance***

#### **INTCS H-2**

The ISO certification requirements were learnt by the firm members through classes given by the Textile Committee, the Central Government organization that had a Regional Centre at Kannur for the benefits of firms in the cluster. Classes were conducted from time to time to keep new staff abreast of changes. SA standards were taught to staff by personnel of certifying agencies on a tri monthly basis till the firm was able to clear the certification audit.

**Memo:** Executive governance is seen within the area when the Textiles Committee carried out quality awareness classes and drives to promote specific quality systems like ISO. Executive governance was exerted by firms who were chain participants or their support personnel. They came to the supplier premise to consider new products, new weaves and marketing ideas. The influence of the final buyer staff on within company key staff like merchandisers and quality supervisors is high. The executive governance measures of buying firms are not just to one or two personnel but are to firm staff at lower levels also. The buyer personnel are able to convey factors of importance, buyers concerns, work methods, product requirements etc as well as understanding supplier concerns. They are able to consider the needs of second tier manufacturers and the constraints they work under; the uniqueness of this link is absorbed into the final product attributes.

#### **INTCS H-2**

Judicial governance measures are seen exerted on the firm by the buyer to ensure that the ordered product met the quality standards specified by the buyer.

The initial one meter of fabric called 'cotton meter' was sent as sample to the buyer to check defects and ensure the product matched all specified standards. Judicial governance seen internal to firm and internal to chin, in the insistence of product related standards, when firm dealt with secondary suppliers like cooperatives, individual handlooms and power looms and Tamil Nadu based firms.

The basis for further changes to the product was the photography samples and the sales man samples that the firm developed once order was confirmed.

### ***Process standards***

#### **INTCS H-4**

SA standards were process standards which the firm had a certification of. This certification of the firm was of value because it created a benchmark for other firms. The benefits to the firm were:

- a) New buyers are encouraged to do business with the firm because of the foreign certification.
- b) Worker loyalty is built up as these standards stress better working conditions and rights for workers
- c) Better pay is meted out to the workers as per the requirement of the standards and this is an additional cost borne by firm.

The disadvantage was that adoption of these standards exerted a high cost to the company because of the high wages that they had to pay workers.

### ***Legislative Governance by Firm***

#### **INTCSH-5**

Measures that were specific to the firm, or set by the firm and process specific, to suit specific products, were strictly followed especially for the premium segment buyers.

- a) Inspection was carried out at every stage of product development. During the time when the suggested production centers were decided,

approval of the second tier suppliers was obtained on a written form regarding the company requirements about quality of their output.

- b) Before start of production a 'cotton meter' was woven by the second tier producer to check weaving quality , no of defects, color matching, design perfection etc t\
- c) This was also approved by the buyers by couriering it to them.
- d) Once production started, quality inspectors of the company visited the production sites within Kannur on alternate days and travelled to out of state production locations on a weekly basis.

#### ***Executive Governance by Firm***

This was observed in the efforts taken by the company staff to help second tier producers meet quality deadlines, overcome defect deadlines, and follow firm quality parameters by continuous monitoring at the suppliers premises. This was because the high value customers of the company insisted on the highest quality in weaving and design. Their focus on quality was paramount.

#### ***Legislative Governance by Buyer***

Legislative governance is seen within the chain in the adherence to packing standards and the instructions given by buying firms. Products were often packed for the final retailer shelf with tagging and all other requirements adhered to, so the product standards or specification that were often buyer specific (retailer specific) needed to be strictly followed.

#### ***Judicial Governance by Firm***

##### **INTCS H-6**

In response to a question about whether sanctions were imposed on the firm due to non conformance of standards or not meeting specifications the respondent felt that defect handling was a two way exercise. Joint management of quality by the firm and the second tier suppliers made the firm able to have superior quality.



A shared responsibility between buyer and supplier was there. This was seen in the firm relations with its key buyers. A non adversarial relationship where combined responsibility was taken to ensure an excellent finished product was seen.

To increase or enable higher quality the firm carried out the following activities

- a) Inspection at every stage
- b) Mandatory forms developed at each stage.
- c) Inspection formats created to the level of post packing inspection.
- d) Merchandisers have been allotted to deal with separate buyers so that responsibility is not shifted to and fro.
- e) In the case of seasoned or regular buyers trust was high.

### ***Legislative Governance down the Chain***

#### **INTCS H-7**

Secondary suppliers of the company had an advantage because according to the ethical trade initiatives primary producers should also share and benefit from business of the firm. Social security and welfare measures should be extended to them. SA certification interviews involve speaking to second tier suppliers and evaluating the extent to which firm benefits filter down to producers. The claims of the company were cross checked with lower levels of producers.

**Memo1:** The SA Standards adopted by the firm required firms to encourage or promote workers groups or associations within the firm to voice their concerns to management. This was a difficult clause to follow for most firms which ad workers unions within the firm. Firm in the cluster did not encourage unionization and tried to suppress it since there are issues regarding wages, temporary workers etc. this was a difficult clause to follow which is why many firms have not been able to adopt SA standards

**Memo2;** Many firms interviewed among exporters in the cluster questioned the nature of SA standards. The reason being it was difficult to implement in Kerala where labor issues predominated production and manufacturing industry and prevented firms from being more productive. In such a background governance issues that center on assisting workers to organize themselves to carry out directed action was courting controversy.

**Memo 3:** Despite SA standards being followed by only 2-3 firms, few firms suffered from lack of orders- beyond the general fall in orders due to the recession or currency fluctuation. This could be because

- a) A majority of buyers for firms from the region were not recently drawn. They had been doing business for years together. This meant that their ties moved beyond order fulfillment, maintenance of standards and delivery schedules to trust based ties. Buyers trusted their regular supplies to get orders done, in requisite quality levels. Trust based on personal relationship building, frequent interaction and meetings and strong buyer's involvement, made standards redundant.
- b) A general consensus among the exporters about the cost of maintaining standards and carrying out testing procedures for the same was that high cost of implementation was never backed by executive governance measures, price support or specific buyer actions that helped supplier keep up these standards. This was a further discouragement.
- c) In many cases buyers were from high quality low volume segments with less retail presence than mass market, high volume value based brands where meeting standards and ensuring specifications were rigidly followed and where firms mostly worked through agents. Quality was also checked by these third parties. It was a technical or documentation requirement enforced on the supplier firm by larger buyers or volume buyers.

### ***Product Standards***

#### **INTCSH-9**

Since the firm was certified for ISO 9001 standards and SA8000 standards these were the firm specific standards followed by the firm. The quality levels maintained for products however varied based on the buyers requirement. The buyer catered to a particular customer segment and the segments quality and price combination determined what level or requirement of quality was needed. Buyer's requirement of quality was taken as the basis to judge what quality standards to apply to product. Strong interaction of buyer with the supplier ensures that the supplier is also aware of the segment to which the buyer is catering. The retail philosophy, the store standards and number of outlets is taken into consideration to decide product parameters to be followed.

Buyer specified aspects like fabric counts, count by weight etc. the end use of the product and customers or retail store SKU greatly determines quality standards to be used for the product. This determines count required finishing and color fastness to be used for the product. The dyeing strength and fabric treatments all vary by use of product. This differs from placemats to napkins to mittens. This means that product standards are highly variable by retailer or buyer segment type and by end use of product.

An example was given for this. Volume buyers/value oriented buyers like Wal-Mart and IKEA need to be color fast at 30% heat or 30°C temperature of water. As quality increases, color fastness at higher temperatures need to be tested. Up market products are tested for color fastness upward of 60°C.

- a) Dyestuffs used for fabric dyeing vary extensively in price and quality. The dyes are chosen according to the product and price band allowable for it. Thread density measures like Picks/inch and reed picks determine the product to be woven. When picks/inch is less, density is less and cost less. Shrinkage is checked beyond permissible limits.

- b) Product standards may be also regionally enforced, or country based. The EU may subscribe to BIS standards; British retailers subscribe to the standards enforceable by the British retail chains (BRS) Standards. Stuffed products must pass a flammability test. For most home textiles like bed linen, napkins and upholstery government based regulations of the specific buyer countries are enforceable. Testing of these finished products for sale is not done by retailers themselves but testing laboratories take up this task. Third party testing is done for the finished products

Judicial governance exerted by firms outside the chain, testing laboratories like MTL and Intertech specialize in testing finished products for buyers. Many of these firms have offices in India. For volume retailers design of product is done by 3<sup>rd</sup> party laboratories. . The tests are to ensure product based standards have been followed pertaining to the firms /retailer specification, or whether government regulations or country based standards have been followed without fail. These are legally enforceable standards and judicial governance with the possible application of sanctions is seen exerted by firms outside of the chain.

In the method of operation, the laboratory interacts with the suppliers directly and not through buyers. Lab requests supplier to send specific products to testing facility. Report or result only is sent to the supplier.

#### ***Legislative Governance by External Bodies***

##### **INTCS H-10**

In response to a question about how product requirements or specifications were conveyed, the respondent mentioned that the purchase order signed by the buyers was the basis for judging all instructions regarding the product. Very specific instructions were given regarding requirements of product quality, tests to be carried out and certification to be followed.

The use of ETI (Ethical Trade Initiatives) or Fair Trade Practices is important to some buyers. These product and process standard are important to

high value market. High end or premium retailers sell products at higher unit prices like 80-100 pounds instead of the normal rates of 20-40 pounds. These retailers use ETI measures as a distinguishing factor for their products, signifying that the benefits of purchasing their product goes back to the communities in which they were made. Bill Brown, Nyblom Kollen and Sterck are higher value labels the firm does work for.

Fair trade initiatives are at two levels

- a) Working standards: the firm follows SA Standards
- b) Authenticity of organic label through clarity of raw material source: Organic labeling has to done from farm gate, specifying the farm where the cotton is grown, the batch of product. Before this point the inputs to the farming process, seeds, manure and other growth supporting minerals or chemicals have to be of organic origin. Organic certification is given to the farmer which then has to be quoted as the cotton undergoes conversion to yarn etc.

The company carries out ten percent of sales is in organic woven products and charges very high premiums for the same.

**Memo1:** Organic products governance is more complicated than SA- which is a process standard because the authenticity of organic produce has to be verified. Organic cotton exchange decides the prices of this commodity. Growers need to be certified and even their suppliers for fertilizers, other aids, harvesting practices must not be involving chemicals of any kind. This requirement is enforced by the use of registers at every level or step that is in effect a continuous record of product being passed through the system. And also is a record of organic stock available. The record keeping and maintenance is much regulated and conforms to a universal standard.

**Memo2:** Dealing in organic products raises the cost of product to high levels, but is an asset to the company because they are able to meet very high quality

levels. The extent of legislative, executive and judicial and executive governance measures are very high and involve a lot of effort to maintain. Firm may be doing volumes that don't make a very significant difference to its profits.

### ***Judicial Governance***

#### **INTCS H-10**

The respondent expanded on judicial governance measures followed by buyers to ensure standards are being set.

- a) Laboratory testing: The use of laboratories testing quality standards or product specification was mentioned. These laboratory services have facilities in most sourcing countries and carry out testing and certification on buyer's behalf.
- b) Agents: physical measurement by agents on behalf of buyer in supplier countries is commonly used especially by large, volume buyers like William E Connor (WECON), Alliance, Francis Waczia, WECON are agents for Ikea, Tesco and Walmart. They organize the testing and give approvals as per standards. In the case of smaller buyers and shops having fewer outlets agents are used as they are too small scale to execute testing themselves.

Agents inspect the product in three stages: a) in the initial stage, color matching is examined to ensure dyeing correctness. B) At the loom when weaving is in progress the first meter is examined. At the final stage when product weaving is finished, sampling is done by randomly taking products from master cartons.

#### **INTCS H-6**

A discussion about how the governance was exerted down the chain among the second tier suppliers was carried out. How were they governed or managed by work practices.

The process of carrying out the order was detailed.

- 1) Once an order was placed stock of grey yarn and inventory was checked. Chemicals and dyes were also checked. The required amounts were ordered from agencies within the cluster, which were stockiest of yarns and chemicals. These were
  - a) Gandhikumar textiles
  - b) Mahesh Baliga and sons
  - c) Sagar dye chem. Industries.

The aim of the company was to minimize inventory. Materials were ordered only after orders received. For smaller orders the yarn and chemicals were bought by cooperatives directly from government agencies or yarn agencies and dyed themselves in their premises. For larger orders , yarn is ordered b the company and dyed in the factory premises as colour matching had to be 100% cabinet dyeing ensured large volumes of yarn dyed instead of smaller batches, as in vat dyes. Usually the same design or weave is given to a single unit so that uniformity of color among fabrics produced by single weaver. In some cases like for shades of darker brown, black and blues and reds needed to be vat dyed to have color fastness.

- 2) Every second tier supplier has a fabric checking report that is filled by quality supervisor. It is a computerized form that the quality supervisor fills after ensuring whether production time schedule is being met, whether quality problems are being dealt with by cooperatives on a weekly basis, as they are visited y the quality supervisor.

**Memo:** the legislative and executive governance is exerted by the firm in two ways:

- a) Specifications of product are clearly given by company to be adhered to strictly.

- b) Executive governances shown by the firm in the degree of interaction with second tier suppliers. A combined discussion by firm staff to first decide second tier supplier. They are also called to the company during a second phase of discussion where they themselves assess whether they will be able to fulfill the order with minimal quality issues, and whether they will be able to adhere to company quality levels. They do this by discussion with their key staff of the firm, who visit the suppliers weekly.
- c) This is followed by the development of a production sample for approval. This is checked for color, quality of weave, construction defects etc. this is checked by firm quality inspectors at the production sites of the cooperatives and power looms. The firm needs to give an approval card to suppliers before they can start production. The quality inspectors go to firms on a weekly basis. On a monthly basis all second tier firms are visited by the export manager.
- d) Usually if a second tier supplier had recurring quality problems it was avoided next season. Suppliers are evaluated on a yearly basis (legislative governance) by the use of ISO approved forms. Some amount of judicial governance or penalty or sanctions also allocated in the event of firms not meeting required quality – they may be removed from the list of preferred suppliers.
- e) The respondent went on to discuss how the firm evaluated buyers. What were the terms that they followed? What were the criteria that was considered?
  - Number of orders from the buyer in a month
  - Payment terms and credit period
  - Size of order that the buyer had was a deciding factor to a lesser extent.
  - Extent to which suppliers price accepted – degree of bargaining power that was provided.



- f) Every supplier had a fabric checking report that was computerized. It was filled in by quality control staff of exporter who visited the supplier on a weekly basis. This is computerized at exporter premises on return. It contains details like
- Who checked the product
  - Production time met
  - Quantity achieved
  - Quality problems encountered
  - On weekly basis filled by exporter's quality staff. Suppliers are checked on a yearly basis.
- g). Order sheet has specifications that indicate all details. Before bulk production is started sample development was done. This quarter meter length of fabric was prepared by the supplier for design and color approval by buyer, before bulk production was started. The order sheet had details like how much how much light fastness and color fastness, time required to deliver bit sample, production sample and delivery date, payment terms to be specified

The firm has very stringent regulations regarding total absence of variation in color, count, design or construction. Once the bit sample is approved for these parameters by the buyer it is signed by the buyer and sent by courier back to the company.

- h). Order confirmation document is prepared for new buyers. Payment terms, credit facility etc is checked. Purchase order terms have to be met. Rules regarding measurement, inspection reports have to be monitored. The order confirmation document has to be signed by buyer before production starts.
- i). Purchase order needs to be received before production starts. The purchase order contains details, measurement checks, tests to be conducted etc.

- j). Inspectors can estimate at what level quality checks or sample checks need to be done before quality control can take place. This specification is made clear in the purchase order. Production testing or sampling is done at weekly basis. If sample development is done by cooperatives, production sampling is done on the basis of a 'cotton meter.' One meter of fabric is first woven and sent for approval. 1-2 weeks later approval received

### **6.3.3.3 Sources and Types of Upgrading**

#### **Product upgrading**

##### **INTCS H-5**

Discussion of upgrading was carried out. Process and product upgrading was discussed. The new processes taken up by the company included

- a) Variety of embroideries
- b) Value adding embellishments
- c) Packaging- a number of innovations was taken up like bar coding, labeling, specialized packaging requirements, final retailer packing was done for retailers.
- d) A large variety of trims, zips, accessories and special stitches, cuts piping etc was being done by the firm. This was done in house with the help of the finishing units. The firm had 2-3 finishing units-depending on value of product the type of finishing required was decided and where to carry out the specific finishing was decided. The buyer's specific instructions were followed.

Product upgrading was a common phenomenon, which happened on a seasonal basis. A large number of new products were brought out every year according to buyer directions. Product innovation was carried out in fairs and exhibitions that the firm attended on a yearly basis. Many products were lifestyle based. New and status/benefit oriented in their segmentation strategy.

**Memo:** a measure of upgrading can be seen in the range of products that were being produced by the firm. Every year producers needed to exhibit or develop new product ideas. Not just new in colors or sizes, but genuinely new to the company. The development of these products is usually a two way process involving suppliers and designer staff, proprietor's personal attention and top management of both links. New products are developed through back and forth movement of ideas, color schemes, production methods, results, fine tuning products and carrying out finishing variations. In many cases producers also came out with their own product ideas.

### **Functional Upgrading**

This kind of upgrading occurs when additional functions are taken up by the firm which was not taken up before. These may be functions which were done by other firms, and have been taken up to get the benefit of the same, or may be functions which no longer are adding value to the firm which are disposed off and transferred to out of firm parties.

- a) The firm has taken up a functional upgrading in reaching the product to specified locations. Out of stock situations may occur in different countries where the product should be reached, when the importer distributor is not able to reach fabric to the country-specific dealers. This function is taken up by the company. This is especially true of large wholesalers and importers and design houses or multinational retailers or chain stores that may have stores or stockists in different countries.
- b) Out of stock situations at these stockists are communicated to the main buyer or key importer office which places the order with the supplier factory in the developing country with orders to deliver the same to the particular outlet located in a different country or to be sent to the warehouses.
- c) Functional upgrading is also seen in terms of the volumes being sent. With the company's largest buyer weekly shipments are made. This is

done on receipt of stock figures from buyer warehouses. In short inventory is stored in supplier premises till taken up by the buyer. Flexibility in volumes sent and designs to be sent is incorporated into this replenishment system.

**Memo:** Functions were taken up that were not formerly taken. This was enabling the producers to understand needs of their buyers and to provide what they need. An ongoing dialogue with the supplier was done, so that suppliers were constantly updated about what buyer was looking for.

### **6.3.4 Emergent Codes Identified From Interview Transcripts**

#### **1. *Home Textile Industry Characteristics***

##### **INTCS H-3**

Usually upholstery, curtains and furnishings of homes were changed in December. Christmas was the time when the market for home furnishings and fabric based décor for rooms received a boost in sales. This was because of the yearly changes that customers in buyer markets usually made at the end of the year. The recession started in the few final months of 2007. In January – February 2009, the sales had still not picked up very significantly.

##### **INTCS H-4**

The respondent felt that home textiles demand in industrialized countries, which were the existing key buying countries of the Western hemisphere was falling. The company was trying to develop markets in new countries. New designs and products were being considered so that the company could reduce dependence on its existing regular buyers in whose countries sales were either stagnant or going down.

##### **INTCS H-7**

The interviewer expressed an inability to identify products in high, medium and low value categories across all cases as each company's perception of this was governed by the value price considerations of their reigning customer segment and

this determined which products were in these three categories, . This means that firm standards regarding fabric parameters, quality of yarn and dyes and properties of finished fabric were very different from one firm to the next. The firm claimed not to have records of product category related information, since the variety of products was very high. It was difficult to allocate products by function, user, frequency of use, environment or room etc. this meant that they kept information about sales volume, under two general categories of furnishings and made ups.

**Memo1:** Within the made up category there was a large variety of products. Stuffed items, stitched, coordinated by color and purpose, separated by room of the house and individuals using these products etc. Between these products the differences were many and data for each product type was difficult to record, as the product, being highly customized may not be repeated in every shipment.

**Memo2:** Respondent had submitted buyer views of firm performance, for development of a radar chart about key success factors. The respondent felt that on a case to case basis it was just not possible to estimate change in value added for each product category since there was such variety of products. General figures were provided. There was also change in product valuation based on buyer segment. Some segments had similar products but due to the pricing, the quality of yarn, the counts used, the finishing given the made-up and the embellishments of the item, price was very different.

**Memo 3:** It seemed strange that the firm did not have sufficient mechanism for estimating contribution of each product to profitability. The method that they followed was based upon each buyer's contribution. How much did each buyer give the company in terms of revenues? How beneficial was the buyer to company growth. This was seen when researcher tried to understand how the change in value could be understood from one level to the next.

The respondent provided the following general figures to indicate change in value added for a product of average quality, produced by the company – a place mat.

a) Cost price of place mat of average quality at factory premises	Rs. 25
b) FOB price (30-40% of cost added)	Rs. 40
c) Shipping duties for place mat (landed duty paid, 20% added)	Rs. 50
d) Transport cost to warehouse of buyer (20% of FOB value)	Rs. 60
e) Importer mark up and other marketing costs (20% added)	Rs. 72
f) Retailer's store mark up (20%)	Rs. 84
g) Final selling price of product \$10.99 for a set of four i.e.	Rs. 495 (11x45)
	= Rs. 123/- per piece.

Approximately 6-8 times the change in value is seen.

**INTCS H-12:** The interview focused on how to measure value added at each stage- as a critical requirement of value chain analysis. Respondent tried to indicate what the percentage of costs levied at each level once the product was reached the buyers' port.

- Insurance for freight 5%
- Transport or shipping 6-8% added on received price
- Buyer's docking charge 10-55% on goods is received
- Forwarding costs of buyer 10% is again added
- Labor charges for loading and unloading added at stores

The value added costs varied for made ups and fabrics.

### **For Made Ups**

High value indicated by

- a) Trimmings, embellishments
- b) High quality fittings and accessories
- c) Conversion cost high
- d) Labor cost per unit of product high so mark up was also higher.

A fabric costing Rs. 100 to produce per meter was charged Rs. 240/- Rs. 300/m. more than 100% value addition is called for.

For fabrics costing Rs. 100/m the firm sells it for Rs. 160-180. A value increase of 40-60%

These were general figures. Country variations were there depending on country based tariffs or costs.

**Memo1:** In terms of value changes from the exporters selling price, up to 8 times the exporter's price was placed at the distributor level. The respondent felt that the most profitable segment of buyers was the specialty stores. These did small volumes of 2-3 crores, but more than 50% of this was profit. Suppliers of these companies could charge 100% mark ups for their products.

He contrasted it with small exporters in the north of the country gifted with the ability to do needle craft or handicrafts. For such firms 80% of their export success was based on that skill or talent that was being show cased to foreign buyers. Though they did little volume, more than half of this was profit.

**Memo2:** the respondent felt that inherently there were a number of drawbacks affecting the home textile industry of the region. Key among them was:

- a) Inherent skill of people becoming limited.
- b) Craftsmanship not innate so the factory owners were finding it increasingly difficult to get workers with some skill.
- c) High value treatments for fabrics, to increase its value and marketability, needed to be done outside Kannur.

- d) Continuous milk runs to and fro the secondary production and fabric treatment venues were incurring costs.
- e) Handloom fabric production within the cluster was being done only for high value buyers who could afford handloom costs
- f) Increasing cost of dyes and chemicals constantly increasing cost of finished products.
- g) High input costs within the cluster were limiting profitability. Within the cluster input costs of yarn fluctuated on a weekly basis and the costing of products was becoming difficult.
- h) Accessories, tags, zippers, finishing items all needed to be sourced outside the cluster - in Erode, Salem or Tirupur. This all caused an increase in the final product price. None of these product suppliers were available within the district. The reason was because of the high variability in final product offering, it was difficult to determine the varieties and volumes needed.
- i) Within the cluster, between the different manufacturing export firms and the large number of merchant exporters, there were high levels of competition. Though the exporters association based in the cluster-- called KHEO (Kannur Handloom Export Association now renamed Kannur Textile Exporters Association) - was active to deal with their common problems or government related issues, there was little trust among them. Ethics were no longer followed when dealing with buyer segments. Buyer poaching was becoming common and it was harming the working relationships between firms and reducing cooperation between them.
- j) Infrastructure problems, the transport problem by road and the lack of an airport in the district was limiting the accessibility of the cluster to buyers. The time taken to reach supplier firms deterred many buyers from coming to the district.



- k) The work ethic of the state's nationals, with a strong emphasis on their working rights and political activism was detrimental to the entire industry. Strikes, hartals and absenteeism were rife. This was harming to the entire industry, breaking up its already fragile structure.

## **2. Macroeconomic Effects on Industry**

### **INTCS H-4**

Recession started in the December of 2007. This caused people to buy less during the Christmas season, causing stock to be left over in 2008. This meant in 2008, companies and retailers bought less from suppliers. For the whole of 2008, the worst hit year, up take of stocks from supplier companies was limited. In Dec 2008 a negative trend still dominated as unemployment rose. Though in January and February 2009, sales started to pick up, bad weather and extreme cold caused shoppers to remain indoors. Volume sales fell due to poor weather.

**Memo1:** Like the fashion apparel industry home textiles was also grievously affected by the vagaries of the market. Recession had an acute effect on the industry. From December 2007, revenues were falling. This was more so because the company did not deal in volume sales or mass product categories. The dispensability of home textiles meant demand fell radically. This was also affected by the subprime crisis that directly impacted new home purchase. Home furnishings and textiles thus remained a neglected category, in the wake of stricter home loans, stringent checking and greater credit approvals from banks.

**Memo 2:** A fact was that the company's regular buyers bought significantly less volumes. This had a direct effect on the second tier producers as they had to give them fewer orders. The company's main buyers were all strictly handloom cloth buyers. The company H found they were unable to provide sufficient volumes of work for the second tier producers. This affected them more because more than a hierarchical or vertically integrated producer relationship, it was a partnership or a relationship based on mutual trust and respect.

### 3. *Influence of Marketing Actions on Firm*

#### **INTCS H-1**

Five years back, i.e. from 2000 to the end of the MFA handloom look and feel were important. Now after the MFA that was no longer important for majority of customers. New textures were becoming popular, new finishes were being explored, innovation in fabric design and technology, different combinations of fibers were becoming important to buyers.

**Memo1:** a high degree of product innovation and fabric variation meant that firms needed to develop these strengths. Rents related to the firm –regarding production, marketing, HR and finance needed to be brought up, especially marketing rents.

Constant market research and feedback count as important. Visiting fairs and exhibitions was done on a regular basis to keep in touch with the latest trends.

**Memo 2:** firm had a strong emphasis on marketing rents, visit of exhibitions by key resource persons. Getting / soliciting enquiries, establishing stalls in fairs are strongly emphasized by these practices. The benefit of this was strong exposure to foreign markets, direct interaction with different buyers, existing and new trends are explored, competition evaluated and new samples are generated

#### **INTCS H-2**

The company has an agent who is an independent designer in the US . Based on the market trends and colors she develops designs. The designer discusses and examines workability with the supplying company H as to whether the designs can be made and how workable the costing will be. The producer also gives suggestion about cost and doability. The designer tries to find buyers for designs approved by supplier for workability. If approved, the designer receives a commission for the same. She acts as a seller's agent, and liaisoning for seller becomes possible because of the SA certification that is foreign certified. Otherwise the retailer or big buyers have agents in India who must find suppliers or source the product from different vendors. Crate and

Barrels is one such company working through the company and not through the buying office because of its certification value.

### **INTCS H-2**

Among the department stores or retail brands the responded tried to develop a categorization to indicate their target group

Value segment: WAL MART, IKEA, and Target

Middle segment: Sainsbury, Tesco

Upper Middle: Marks and Spencer's, John Lewis and Peter Johns

Premium: Crate and Barrel, Pottery Barn, Dillard's, Neiman Marcus and Malabar

Super premium: Liz Claiborne, Calvin Klein, Laura Ashley, Sanderson. Designers Guild

**Memo:** The home textiles segment was similar in its segmentation to apparel fashions or segments which also varied from discount pricing or value stores to fair price shops to premium and upper class segments. The demands on supplier hubs for aspects like design development, sample development, retail packing, small batches production etc became higher as the product became of higher value and cost increased. The segments that the firm dealt with were upper middle and premium segments.

### **INTCS H-3**

The firm regularly visited fairs or exhibitions, especially those that were important to the home furnishing industry. The Decorex fair was held in January and September. It was a B to B fair, and not for final customers. It was useful to develop new supplier contracts and to meet potential institutional or firm buyers. Within the country, the Textstyles fair in Delhi, held in January or February and the Home and Gift fair at Noida were important. Heimtextil, held in Bombay and Germany were frequented fairs.

**Memo:** Fair attendance was very important to the company. At least one fair was visited every year, usually in different countries. They made an effort to go the

fairs in countries they planned to enter with their existing product range. It was a marketing strategy to see what were the products or categories of products which were popular there. The ability of the firm to be constantly exposed to new trends and new products through its patronization of fairs and selling exhibitions was a source of rent. Decision makers like the managing partner travelled yearly for close to three weeks visiting many fairs to get abreast of the latest trends.

#### 4. *Marketing Intermediaries*

##### **INTCS H-1**

The firm was dealing with middle level department stores, in moderate volumes and not high volumes. It was of the opinion that selling to distributors rather than branded final retailers and mass market retail giants gave the firm guaranteed business. Big retailers and discount stores or value based retailers had the tendency to change their suppliers from season to season. So it was risky to expect continuous business. Suppliers were constantly stretched to meet needs of their buyers even if it was not economical. But to get the large order sometimes suppliers took the risk. The results were sometimes disastrous.

**Memo:** The type of retailer had an important effect on the profitability of the order. The overriding concern of the firm was to do good quality products, and to get good, above average prices for the same rather than more volume of output.

##### **INTCS H-1:**

The respondent went on to describe the change in value of the product as it passed through the distribution network, as it traversed the supply chain. At the exporter level a product of \$2, would be sold for \$16 by the distributor

Transport charge, import duty, clearing port to warehouse,

Unloading and packing	\$2
Interior designer or design cost	\$4
Distributors margin	\$8
Final product cost	\$16

**Memo 1:** Distributors of high value or up market furnishing or interior design firms as well as exclusive outlets of furniture or designer's own firms or distributorships operate through a system of distributors. EG Sanderson, Osborne and Little are examples of such distributors.

The system of order generation for such firms is through pattern books or fabric manuals. These manuals once created are in circulation for one to two years. The manuals contained hundreds of shade swatches and textures of fabrics developed through vendors or suppliers. The colors or textures for the season are arranged in the form of a book.

#### **INTCS H-4**

The respondent went into a discussion about the various levels of buyers and the kind of quality they had. This was a general description and not specific to the firm.

**Category 1:** Big retailers. They had a huge number of company owned retail stores. Sometimes 3-4 categories of stores operate to cover more buyer segments. Each retailer had many store brands that were created by the company itself.

Suppliers dealt with such high volume stores through buying offices. Buying offices located in supplier countries. The firm usually worked through buying offices. Usually they ordered in bulk. Goods were usually sent to company warehouse and distributed through supply chain management or distribution systems to different stores by truck or milk runs.

E.g. Crate and Barrell, Wal-Mart. The level of quality of the manufactured product needed to suit retailer requirement. According to the retailing philosophy of the buying firm, a decision was taken. This way, the firms may have a high value orientation, with discount prices and bulk price approach or better quality/fair price approach. Products in this segment are usually packaged for shelf display, with final tagging and identification details.

**Memo1:** In such bulk retailing emphasis is on correct delivery and required volumes, with an acceptable price. High price may not be allowable or encouraged since the chain offers 'fair price, or a value combination with fair to average quality. The strength of the supplier should be to offer required volumes and enable the company to make a fair profit as a result of the volumes. Sourcing is important to success.

**Memo 2:** In Kannur it is seen that the firm uses an alternate production source at Erode, Tamil Nadu. It is a vendor or production source run on power loom that is used by firm to meet requirement of this category of buyers. Functional upgrading or value chain upgrading is seen in the use of alternative production methods to suit evolving buyer requirements. Process up gradation is also seen to incorporate this type of production requirements

**Category 2:** In the second category the buyers are distributors. They may be design houses or whole sale fabric importers. These may be of two types.

- a) Have their own stores and own brands. They have lesser number of stores but exclusive outlets.
- b) May be shops which are free standing or boutiques. Individual designers running stores or boutiques or 'category killers' offering all price ranges across a particular product category.

These type of stores use pattern books or season related swatch books, bought out by designers or their branded stores or companies. Sales occur for a set of rooms or for a group of fabrics- coordinated by colors or designs for specific upholstery and decoration needs. This is usually done by designers or upholstery shops. The fabric is from their own stock sourced from designer driven distributors or branded fabrics. These may be branded by distributor or import house.

- c) Specific shops or agents may stock these products or may act as stockists of this brand. Once order comes in, stockists may sell stocked product. Or if out of stock, order from distributor.

- d) Distributor sources or orders from the supplier who sends required out of stock items directly to country or company within 20 days. This is sent directly to the shop or store of specific country.

**Memo:** This means that the importer distributor has weekly orders for specific fabrics that it needs to import from the fabric suppliers. The firm H sends these weekly requirements as a weekly replenishment or when stock levels in main warehouses have reached a minimum level or reorder level.

- e) Big distributors like 'Malabar' sell own fabrics or creations as designer fabric in many countries. Business is through designer fabric manuals or booklets, made by the distributor for a two year period, and having a huge range of season's colors and textures suitable for a range of upholstery and interior design needs. These books are made by distributor as major marketing or product development exercise every two years or four seasons.

**Memo:** doing business with distributor level or wholesalers was a profitable exercise. This was especially so because the distributor in question was a premium one. It may not necessarily be the norm that firms are able to get good prices for their products. It is the strength of the relational or chain rents. The buyer's patronage made this possible.

What have been the overt and covert effects of the link of this channel intermediary?

**Overt effects:**

- a) Appeal to other potential buyers because of the trust of existing buyers and high value brands they supply to.
- b) Positive effects on upgrading. New products and process improvement as well as taking up new functions are called for. And emphasis on learning and improvement for other members of the value chain.

- c) Strong emphasis on innovation, new product development, developing new product differentiation, etc
- d) Shared development: new products or fabrics are never developed as a one way exercise. A focus on joint development and costing – as the supplier’s ability to deliver the required quality and design is very important.
- e) Is the chain dominated by lead firms- to the extent of new product development? Support in product development according to the requirements of a key buyer does not mean the firm H does not undertake its own product development. It is able to do so by interacting with other buyers and fulfilling the design requirements of smaller, highly variable and differentiated product lots through requirements sent through smaller, exclusive retail establishments. As these firms are unable to import on their own, they route their orders through the larger importers or distributors, who get paid a commission for the same. No indication of very strong judicial governance by lead buyers is seen in this regard.

##### **5. Buyer Segments and Store Categories (Marketing Intermediaries)**

###### **INTCSH-1**

Middle level department stores, like Marks and Spencer’s and Sainsbury are buyers of the company’s products.

###### **INTCSH-2**

The respondent went into a description of how retailers buying department operates. The buying merchandisers were key decision makers. Specific products were assigned to them. Their role was to find the best or most appropriate merchandise at suitable prices which would be sold out during specific seasons. The purchase of these retailers needs to be planned for seasonal sales.



The buying head works on targets. Budget allocation and buying programs are prepared for key product areas. Specific companies have a vendor list of suppliers. These retailers often buy in bulk and offer advances. These companies have high bargaining power. Governance measures are there. They act as lead firms because of the size of procurements. Emphasis in these bulk orders is on cost and delivery. No other relationship between buyer and seller. It is limited to a vendor list.

**Memo1:** In most other supplier hubs like Tirupur and Karur, bulk purchase of apparel and home textiles is done by merchandisers. Such large retailers work through agents like William E Connor or Li and Fung or through the retailer's own buying offices in the supplier countries. These agents have bargaining power because they negotiate with suppliers. They may impose tariffs, check for quality, insist on production schedules, compliances may be imposed, and firms may be deputed to ensure certification for these firms. Other certifying or compliance testing labs are entrusted with task of checking the supplier compliance.

**Memo2:** The firm does not do much business through such channels. Value based retailers are not an important buyer segment. So the scales of production and downward pressure on prices imposed by these agents are not a key issue. The company focuses on premium to upper middle class retailers and brands. For these firms, cost and volumes were less important than quality of merchandise, design uniqueness, finishing and market or fashion orientation. These brands were Marks and Spencer's, John Lewis and its associate brand Peter Johns in the upper middle segment. Crate and Barrel, Pottery Barn, Dillard's, Neiman Marcus and Malabar were premium retailers.

## **INTCS H9**

In response to a question about which was the preferred customer group of the firm, and what was the basis of judging such preferred customer groups the following suggestions were made by the respondent:

- a) *Specialty of product*- how different or exclusive was the product compared to the offerings of suppliers like it. They focused on producing different, exclusive or uncommon designs, weaves or fiber combinations
- b) *Effort*: the cost per unit effort. The greater the effort expended, the more the premium that could be charged.
- c) *Quantity required*: Large volumes were not actively preferred or valued. Rather smaller volumes, but of more quality or finish, with a requirement of greater effort, meticulous planning and vendor management was required. Streamlining the sourcing or providing specific needs of buyers that go beyond home textiles needs was a key need.

**Memo:** The firm in international markets had been associated with good brands- designer based or firms run by designers, or exclusive retail oriented or quality oriented. This has been the trend of its buyers. How has this helped the firm? Branding or association with good brands has helped. High value, low volume segment is the focus. Some of the company's products sell for very high premiums, so among new buyers, prospective clients or potential buyers, it enabled them to command better prices. The existence of strong brands as regular buyers has helped. The disadvantage was that market base was less. Normal suppliers dealt with 20-25 companies so a purchase short fall in one company was taken up by another. The firm had only 5-10 buyers. Almost all of them were long term buyers tethered by the personal relationships and the partnerships. Their clients were more exclusive or upper middle segment caterers.

## 6. *Product Related Aspects*

### INTCS H-1

The firm had a small establishment at Vytilla, Kochi which undertook embroidered garment manufacture. This was in very small scale. But the garments were of higher value because of the hand embroidery and the detailing of the product as well as the quality of fabric.

**Memo:** This customization enabled the firm to increase value of apparels as this was a value adding measure. This was not usually done for large volumes but only for some buyers who wanted this benefit so it was not a blanket requirement. It involved the creative of motifs or needlework that were stitched into the cloth by hand. These were usually done as complementary articles in the fabrics or upholstery or made up products they had ordered. It is usually provided as an entire coordinated set or kit.

### **INTCS H-1**

The export manager described the method of production that was carried out in the firm. The buyers especially the high value importer distributors operated the following way:

- a) They gave the firm designs at least six months before expected seasonal release. These were developed by their designers or team of design experts, colorists etc. Design suggestions or directions about design including all detail of yarn counts, dyes to be used, the kinds of weaving to obtain specific effects, Specific colors or motifs etc were sent by fax or photos.. Couriers were also used to send a replica of the design or any other requirements which is used to convey their needs. Over a span of two to three weeks the designs were developed at cooperative societies. At the Morazha cooperative society in particular, design development was carried out. They were the dedicated society who took work only from this export company. They were able to establish this relation because of the linkage of firm H with certain medium to high end buyers who used the concept of 'hand-woven 'or 'hand made' to establish their socially accountable status. Because of this linkage, the company was able to maintain handloom production of certain products continuously, throughout the year. So a promise of continuous production or steady volume of business was reciprocated by

dedicated supplier terms. The cooperatives produced this design and once the samples were approved they gave orders for 100m of each design. Each of these designs were used for the development of the design manuals or fabric swatch booklets, which were developed by the distributor for a two-year period, showing hundreds of varieties according to the season's colors. Each booklet contained 200-300 fabric options or choices.

#### **INTCSH-4**

Sample development is one of the most important aspects of exhibition attendance since the main aim is to attract new buyers. The sample development process was as follows.

- a) Six months before the fair date, the finalization of products or new samples to be exhibited at fairs is to be done. This needs to be done by the managing partner and related family involved in the business together with the core group of export manager, quality supervisors and merchandisers. Through secondary data collection, use of media reports and magazines, other magazine contacts and consultation with existing customers to understand the current colors and made-up products, this team carries out a combined effort to prepare a set of potential products to be exhibited. The second-level staff or subordinates are also consulted, and the team effort is used to generate samples. The use of sketches, pictures and magazines as well as brainstorming of ideas is used for idea generation. About a week is required for one sample. Up to sixty samples may be prepared for a single fair.
- b) Quality control staff, cooperatives and power loom or individual handlooms are consulted for availability of yarns and the ability of designs. They need to get estimates on time required to weave specific designs, and to what extent these can be modified to suit three to four

cost variations incorporating different counts of thread, weaving techniques and finishing. Usually one week or so is the time required for regular buyer orders and to develop designs three to four weeks. This is for sample development.

- c) Regarding the content of stalls, the question of what should be the arrangement in the stalls, the product categories to focus on and the placement of products are all key decisions that need to be discussed by the group. At least seventy percent are products that are commonly sold – home or lifestyle based products which already are being used in homes. About thirty percent should be truly innovative products. The attractiveness of the stall is important.

**Memo1:** Strong emphasis on unique or innovative products is a constant need to survive in this industry. New design or different designs are especially attractive. It is seen that there is a strong need to continuously generate new or different products. Innovativeness in design or in products is strongly encouraged. This is important in the firm.

In production centers or supplier hubs with a strong dependence on retail buyers which are established volume based buyers or bulk buyers with multinational store presence, a great degree of innovativeness or new product development is not considered as important. They are required rather to carry out orders or finish products according to the orders of these buyers or lead firms within very strict time limits and delivery schedules. They are never required to innovate or to participate in apparel design or product design development. This would not be encouraged as a key requirement. The strong new product development emphasis of firm H can only mean that these firms are not 'captive manufacturers' or limited by the length of the relationship with their buyers or by the size of their establishment.

**Memo2:** It also means that the firm H is not contractually bound, either tacitly or actively to remain exclusive suppliers or to supply only to one firm and not to competing firms in the same segment or product category.

- a) The proprietor and core staff has inputs in designing of samples and developing the planned schedule of completion. Sources of new designs are usually magazines, visits of the owners, etc. Specialized works like quilting patchwork and tuck work are costed separately.
- b) Brochures and catalogues are organized two weeks before departure. In the case of fairs conducted in India, the export manager, the merchandiser and quality personal take part.

#### **INTCSH-4**

1-2% of yearly turnover is spent for next year's sample development. Once costs are obtained, based on those budgets are prepared.

#### **INTCSH-7**

Firm's employment of designers abroad, in separate country markets have been especially useful to understand country trends and seasonal differences in color, designs, etc. Drawings or sketches are faxed or sent with fabric construction details and colors schemes. The durability of this is assessed at suppliers by taking into confidence the cooperatives, as these were the design development centers of the firm. The difference between country trends or county variations in hues, colors and designs are learnt and adopted by firm personnel. The suppliers become able to understand country to country variations about design colors etc.

### **7. *Increasing Value of Exportable Items***

#### **INTCSH-1**

In response to a query whether maintaining labor standards could work as a draw to sales the respondent felt that it might work for Tamil Nadu as they had lower wages. Here the company had to maintain minimum standards because it was SA certified. Wages were not low.

**Memo:** Tewari (2000) talks about the Tamil Nadu Cooperative society scripting a turnaround in their volumes by using worker benefits and worker support mechanisms like ESI or PF as examples of a pro- labor stance. This won accolades

among buyers and they even received better prices because of this ethical or labor related benefits that the societies were passing down to the labor force. It was indicative of social responsibility, ethical treatment of workers, fair wages etc, this led to a significant increase in reputation and approval among buyers and caused an increase in sales.

Low price was never a key benefit that the firm provided to its buyers.

#### **INTCSH-4**

An examination into the future growth areas or strategic areas of opportunity was asked. The emphasis on the garment manufacturing wing was a key area of interest. The garment factory, established in Kochi was established twelve years back because of the market demand. Many European and American buyers were interested in color coordinated bedroom/night wear that matched bed linen or furnishing especially in baby and children's clothes. Also stuffed products and bedroom accessories matched to specific rooms like children's nursery, play room, school activity, living room accessories etc were being made. Articles like pajamas, robes, bedroom slippers, mobiles (hanging toys), banners, blinding etc, were being constantly requested and enquiries were always there for these items at fairs. In most cases the quantity would be small and the quality and the finish high. It had become a key segment to the company. It had product specialization advantages that could be leveraged. It has become a key value adding segment because quantities were small, quality, finish and colors well coordinated and difficult to achieve for new players or for suppliers specializing in furnishings. It involved sourcing required knitwear from knitwear suppliers but following exacting product requirements regarding cut, design, prints patterns accessories, labels etc. It involved high quality stitching and embroidery.

**Memo1:** As a value adding activity this had potential because buyers were interested in this benefit. The firm intended to leverage their expertise in garment sourcing and designing, to new markets since over the years they had developed a great expertise in it. In terms of product diversification and market development it

was a key area of focus. In terms of product upgrading it is significant. It represents an entry into new product groups or categories in greater volumes. It can be also said that value chain upgrading has occurred as they have moved into new value chains. Different value chains are required for garment sourcing.

**Memo2:** The firm H intended to foray into new product categories. Coordinated garments to home ware manufactured by firm were a new product segment. It had potential as many enquiries were being received about this. And observing samples of their existing orders, the firm already had 1-2 buyers for whom coordinated clothing was being done.

Another new product category that was high value- and considered as a potential segment was the high end bed linen market- within the domestic market. The company was already producing very fine count bed linen for domestic service sector (hotel chains). These were of high end or luxury market and entered an institutional market or service industry.

**Memo3:** These were discussed as ways to increase revenue of firm in the recessionary period. Upgrading of product within the existing value chains it had and entry into new value chains were possible options for firm. It is seen that there is a strong source of firm rents related to production and quality. The firm's ability to do low volumes of highly differentiated products and garments coordinated to furnishing, stuffed goods etc, especially in baby and children based categories was a key strength that could be leveraged. This required a different set of strengths or key success factors like

- a) High quality finishing
- b) Sourcing of high quality accessories suitable to products and buyer preferences
- c) Designs usually given by buyer and making to product specification is key to success.



- d) The items or accessories manufactured varied greatly in their range which enabled the firm to capitalize on the ability to customize product development depending on need of buyer.
- e) Strong strengths in sourcing linking across different suppliers of raw materials and bags, zips, tables etc. A key strength was the ability to link between all these very different products or materials without having to keep too much inventory of these items.
- f) Ability to take up and deliver diverse product range speaks of innovation, constant emphasis on new products, meeting quality standards, satisfying different buyer classes or segments and delivering constantly.

## **8. *Production Related Issues***

### **INTCSH-2**

In response to an enquiry about the production related rents or discussion of production process within the firm, the respondent talked about the within cluster facilities that were being used by the company. The textile treatment facility called at Chirakkal was being used for treatments like Zero finish (pre shrunk), sanfreization and calendering. This was done with average quality. Sometimes it was not well carried out, but as it was not far from the company (7-8km) it was used. The firm was not very dissatisfied though it did not rely on these facilities for all fabric treatment needs.

**Memo1:** Use of within cluster facility is seen. The government facility was set up primarily for use by cooperatives, and was also patronized by private players. They did not have any separate or exclusive facility to cater to export quality finishes. Lamination, fire retardancy and water repellency- these specialized treatments are used to increase the value of the product and were being done as a job work in Coimbatore, at specialized facilities.

**Memo 2:** These treatments were becoming commonly accepted treatments. They were a necessary part of any order. But it was not being taken up by a government

or private players within the cluster, despite its importance, but was done by out-of-cluster, and more importantly, out of state parties. The drawback was increased transport cost, vehicle depreciation, loss of revenue to cluster and a general decrease in efficiency of the production activities. This exerts a depletion of competitive strength of firms.

### **INTCS H-2**

Reactive dyes were being used. Cost was less and quality more. The traditional benefits of vat dyes were being lost. The quality of the wet dye process was one of the resource rents of the region that had been mentioned by many respondents as a source of rent. But this was being depleted as more firms were using other dyes or rather carrying out dyeing elsewhere. Vat dyes were being used in the cooperatives where quantities dyed were less. The value of this resource rent was being lost as the type of dyeing method was changing.

The firm had cabinet dyeing machine, so that the yarn was dyed in house, before being distributed or sent to weavers for production. This enabled uniform dyeing.

New fabrics were tested at the Textile committee laboratory within Kannur. Abrasion resistance chemical testing, etc, are done at the textile committee. Testing for color fastness and color matching was done in house.

**Memo:** Use of the Textile Committee laboratory for testing provides a source of cluster based rents that has happened as a result of the organizational support structure.

### **INTCSH-3**

The order processing within the factory was discussed:

- 1). Order for bag/cushion/made up/ obtained by fax or email. Order is discussed by merchandiser and head quality control in the presence of export manager. These individuals constitute key staff of maximum loyalty and standing within the company –their experience was influential in order management.

- a) A work plan is created by these individuals denoting which second tier supplier will weave what, considering the present order and fabric status at each supplier.
  - b) They check the accessories required, tags, labels, polybasic, containers or made up accessories and a purchase order is raised with accessories suppliers.
  - c) Packing instructions checked: instructions for embroidery labels, tags, appliqués etc checked with order. A purchase order is raised with accessories supplier to ensure that these items reach as the products are finished.
- 2). The export manager gives memo to another staff that raises the PO with second tier supplies specifying delivery date and supplier rate. Once the second tier suppliers arrive, the company negotiates with rate and delivery. Once a dual approval is achieved the PO is signed and copy provided to them.
  - 3). The merchandiser who is in charge of that buyer monitors weaving and he also works with the quality control staff of that supplier and accessory purchase manager. The head QC chooses which supplier to approach because of their strengths.
  - 4). The export manager prepares a work order for the made up category of products, time require for fabric cutting, stitching (based on number of workers allocated to the product), time for packing, tagging and cleaning.
  - 5). Shipping agent contacted 2-3 days before shipping. They do trucking and delivery to port overnight. Sometimes buyers nominate shipping agent, like Maersk logistics, Agility Log, DHL Lemuir, Interfreight services etc.

The firm had dedicated shipments and air freights every week for those customers who used a continuous reorder and replenishment system.

The flow of operations is well managed through the use of ISO approved forms and charts maintained for each operation and to ensure responsibility were

fixed. ISO was implemented more than ten years back. Then the firm had made changes in the operations and process flow according to consultant's suggestions. Operations were streamlined and internal work flows made smooth. These ISO standards were implemented by consultancy with third party firms who helped the firm to make the transition. The Textiles Committee had a sound role to play here.

### **9. Second Tier Producers**

#### **INTCS H-5**

The suppliers of the export firm involved in the manufacture of fabric for export are:

- a) Handloom cooperatives: the cooperative societies in Kannur and a few in Calicut (Badagara) have been linked to the firm through taking up of the production of fabric for these firms.
- b) Power loom owners: smaller power loom operators having 2-5 numbers of looms are also considered in production in some cases. These are usually smaller family run businesses that work in the unorganized sector. A great deal of mushrooming of firms occurred in Kannur when cooperative loom production began to wane due to being uneconomical for the exporter.
- c) Large power loom operators in other production clusters like Karur, and Tirur- a widely used option
- d) Individual handloom producers or weavers who do job works, and are not part of any society. 2-5 numbers

#### **Power looms in Tamil Nadu**

Average or low value products in large scales are done at Tamil Nadu so that unit price is less. This is the option of production used when buyers do not insist on hand-woven option. Sourcing of specialized fabrics like voile done in Karur. Some buyers look for lower prices but average to fair quality. Karur is used for these buyers.

### **INTCS H-5**

It is seen that number of societies producing for Hindustan has reduced drastically. Reasons mentioned were:

- a) Unable to pay these producers handloom rates, in a price conscious market, because of high cost of handloom production.
- b) Ability to take up difficult or unusual work with highly innovative products has fallen, so not being preferred as a supply source, if specific benefits of innovative weaving or variability of orders not is fulfilled.
- c) Due to poor wage structure of weavers in comparison to other non skilled labor options, a continuous migration of weavers away from traditional activities and 'caste' based trades towards better paid work is imminent. This has caused fall in the quality of work and rigor of weaving process. Work ethic has also suffered, Hence orders to cooperatives have reduced.
- d) Many societies that have been continuous suppliers to exporters over decades have now felt able to enter into direct exports themselves, or exports through agents. A first step towards direct exports has been taking by societies like Irinavu WCS, Pappinassery WCS, Koothuparampu WC and Kolathuveyil WCS. Some success has come out of this drive towards exports. A few orders have come through.
- e) This focus towards exports is not self generated but arise through continuous promotion of export centered schemes and value enhancing activities of the government. Some of these initiatives are integrated cluster development program, fair participation schemes, product development consultancy with premier design institutes of the country, marketing allowances etc.
- f) Continuous government support to cooperatives in the form of wages, ESI, PF, training programs for women government patronage for

women, has had two effects a) enabled cooperatives to survive when the rates of handloom conversion fell ( export conversion rates)b) a deleterious effect in that the work ethic of the societies fell. Whatever their performance, they would be strongly carried or supported through their debt by government support schemes.

#### **INTCS H5**

Other suppliers of the company are:

- a) Embroidery works : hand embroidery and CAD embroidery
- b) Appliqué work, quilting
- c) Sequencing of product
- d) Fitting of tassels and pompoms- fitting done at Wadakara. Voile fabric is also manufactured at Wadakara. The contribution of this region is significant to export orders. Tassels are usually fitted on cushions, beddings quilts, other value added and rich products. This is taken up by 2-3 persons who subcontract it to smaller units and homes, extending the benefits of export link to much lower linkages. They are paid on a piece rate basis, on meeting the specifications

#### **10. Handloom Origin of Fabric**

##### **INTCSH-1**

In the MFA era handlooms had a quota and buyers had a substantial reduction in duty if handlooms were imported but after the expiry of the MFA such benefits were there.

**Memo1:** this was especially debilitating to the company H because its major selling proposition was the 'hand woven 'origin for some of its key/ most profitable and oldest customers. These links to hand woven goods was important to the company's major customer who used this to market their goods to customers. The social implications of hand woven goods, having a positive effect on the communities and workforce doing this activity were used as a selling proposition with great success.

The company had made a great deal of profit in the pre MFA era where buying firms got the benefit of duty reduction on sourcing handlooms

#### **INTCSH-1**

In the post MFA era new buyers did not insist on a handloom origin, the origin of the product whether hand or power operated was of little importance to the new age buyers. Buyers became particular about the cost of material in the post MFA era.

**Memo1:** The relevance of value enhancing activities undertaken by the government like the 'Handloom Mark' or 'hand-woven' status become meaningful only if buyers acknowledge or buyers demonstrate a degree of importance attached to this aspect. Otherwise the handloom mark origin of product benefit remains a costly prerogative for sellers, not being valued enough by buyers.

#### **INTCSH-2**

The handloom benefit was important only before the MFA. It was also important to those buyers who needed hand-woven or hand loomed products as part of their total selling experience. The firm's own loom were done away with in 1980 as after the crepe boom in the late 1970s, exports fell drastically and they could not maintain weaving facility in its premises as they did not have enough orders to sustain the weaver workforce. They dispensed with this in 1980 and decided to outsource weaving.

### **11. *Effect of Historical Linkages on Firm Trajectory***

#### **INTCSH-2**

Shri K.P. Kumaran was the first generation entrepreneur, an Ezhava businessman who started the business in 1939. A few partners together were in business before that, involved in the business of producing handlooms for the domestic market centered in the North. In 1939 he started on his own, by engaging in trading activities in the domestic market at trading centers of Bombay and Calcutta. The products at that time were shirting, mundu and curtains.

The export business started in 1970 as merchant exports. The proprietor became a supplier to trading firms based at Bombay, Delhi and Calcutta. These were mostly Gujarathi firms which placed orders for materials. Orders were woven and delivered according to requirement. Further orders were woven and sent to trading firms as the orders from them were completed in time for sale. The sons of Sri K.P. Kumaran, Shi Balakrishnan and Shri Jayakumar entered the business in 1975. Merchant exports continued with them. In 1977-78 the first direct export order was received through their trading contacts in Bangalore. They also received orders from a UK based company 'Malabar' which at that time had absorbed another UK based firm called Dewok Designs, which sourced from Kannur. The firm 'Malabar' followed a policy of absorbing sourcing contacts of the firms they had taken up. As the firm Dewok Designs sourced furnishing materials for their furniture business from the same firm in Kannur, the Malabar Company automatically absorbed firm H as a second tier supplier of one of their sourcing companies based at Chennai. Supplying firms of their core supplier was taken up and the relationship began

In 1987-88 the first meeting with the key buyer in UK happened. It began on a strong personal relationship. Mr. Peter Sterk also had a furniture company that sourced upholstery from Dewok Designs. They took firm H as a supplier of upholstery because of the quality of fabric they got and the kind of service they received from the company.

**Memo:** A personal relationship was the first basis of the sound buyer relationship. Compatibility was a key factor in increasing the strength of the relationship. Satisfaction with quality of service and personal contact cemented the relationship. The strength of relationship and friendship extends the linkages beyond a buyer supplier one and is centered on the buyer's confidence in the ability of the supplier to carry out the following aspects:

- a) Follow orders
- b) To meet specifications (codified) of product



- c) To meet quality standards
- d) To satisfy non tangible benefits like ethical trade initiative (ETI) Criteria or SA 8000 work conditions. These are key selling criteria for the buyer in question. This relationship has been sustained by frequent visit of the buyer to supplier sites
- e) Supplier involvement in idea generation. For new products developments, new fabric ideas, new design ideas, new textures etc are experimented upon.
- f) Other yarn suppliers in India have been introduced to the buyer through Hindustan. This is unlike a normal sourcing relationship where a single buyer takes care of all needs of the supplier. The supplier buyer relationship is non confrontational and supportive. Many Indian supplier links have been introduced through Hindustan.

## **Inferences from Individual Case Analysis of Firm H**

### **A. Sources of Rent**

#### **1. Firm Rents**

##### **a. Technology**

Weaving or production technology is not a key strength. Firm did away with in-house weaving in the 1990s. Dyeing technology is improved by adoption of cabinet dyeing for large batches of yarn. This ensured more uniform dyeing. It had a strong dependence on cooperative production. Firm able to utilize this cooperative linkage to the fullest extent as 60% of their customers insisted on a handloom origin. Firm is able to use this cooperative linkage as a leverage point. Stitching of made ups though mostly carried out outside of the firm, managed in four locations, which were by and large self managed. It carried out high value adding hand embroidery unit in Kochi, silk embroidery in Bangalore and quilting in Erode. The SA 8000 Quality certification certified by RINA, an Italian origin certification agency was a source of rent or competitive advantage for the firm.

**b. Human Resources as a Source of Rent**

Middle level management organized around key buyers/groups. They dealt directly with buyers. Managers, quality supervisors and merchandisers liaise with buyers and second tier producers back and forth, ensuring complete adherence to buyer specification. The strong personal contacts enabled the firm to clearly understand the buyer needs and design specification, which provided a barrier to entry to the other firms. Sound knowledge of quality certifications enables application to all facets. Non hierarchical relationship was maintained. Personnel relations were good.

**c. Organization of Firm Activities as a Source of Rent**

Season based production schedule. Twice a year buyers remain on premise, over a two week period. Product conception, design development, examining quality, colors, and detailed sample development process- high degree of customization becomes possible through design codification. Innovative products become a necessity every season, made possible by stringent attention of the buyer. Supplier's facilities aiding this process include

- a) Production carried out at multiple locations
- b) Vertically integrated society based new sample development
- c) Use of other cooperative societies for production of small lots and variable designs.
- d) Salem and Erode power loom production to suit price conscious buyers – but quality directly managed by firm staff travelling to production site on a weekly basis.
- e) High value finishing carried out in facilities located in established textile clusters like Karur and Coimbatore, using the necessary infrastructure
- f) Sourcing of high quality accessories and finishing from Tirupur – center for apparel manufacture.

The organization of work within the firm and with the second tier suppliers enables organizational learning at different level. The firm activities involve staff at lower levels getting involved in decisions regarding production, and time for finishing, and quality. Learning filters down to second tier suppliers, who through the process of capability building uses this learning in other production work, or other orders, domestic or government based.

Ability to meet social accountability parameters is a strong source of rent as new buyers are encouraged to take orders from established suppliers, having a demonstrable set of standards that are internationally valued. A constant emphasis on new product development enables the creation of a diverse manufactured product range, with highly variable design and specification, and created for lifestyle based uses or non conventional uses like buntings, nursery decorations, mobiles etc, all cloth based and color coordinated. These items command high premiums as every order differs both in volume and in product variety.

**d. Marketing Rents**

Use of designers in buyer market is a source of rent. They work on commission and besides creating designs with the latest color charts; firm is able to market their own designs to individual shops or standalone retailers, or exclusive outlets through the designers.

Use of fair visits is to generate new product ideas and concepts. Going to fairs twice a year enables this. New fair locations are considered to explore potential markets. No binding agreements about new buyers were mentioned. Within ethical limits the firm is free to pursue new markets, or potential clients. They work through referrals, often obtained from their existing buyers.

**e. R & D as A Source of Rent**

Three categories of buyers were mentioned in the interviews:

- a) Buyers' designers develop new designs and samples are developed in the factory, comprising 50% of buyers

- b) Specific guidelines and seasonal trends (mood board) suggested. Designers developed on supplier premise. This comprises 35-40% of buyers
- c) New designs developed at firm-10% of customers.

This meant that R&D was a source of rent. Combined efforts of buyer and firm staff seen. Firm's own design and development inputs were significant. They are able to keep abreast with latest trends through visits, interacting with buyer in the factory and on country visits. Synergistic collaborative action strongly governed by fashion and season.

## **2. Resource Based Rents**

Soft water enables better dye penetration and brighter colors.

Vat dye process is endemic to the region, the pre-dyeing processing of yarn, improves absorbency of yarn filaments, and better dyes penetration.

Consciousness of quality is high among workers due to the caste based weaving links of many of the community members (Saliyas). Their skill is also high, so that difficult designs can be woven with ease.

Formerly this resource based aspects were sources of competitive advantage, but has been negated by migration of weavers to other trades due to poor wages, or inconsistent work. Scarcity of soft water or less water availability is becoming common. So also dyeing is being non tenable. Reverse Osmosis equipment, a necessary part of water treatment plants is not easily installed in factories because of the cost. This means dyeing is increasingly done out of the cluster in Coimbatore or Salem where dye houses undertake job works. This means dyeing methods have shifted from traditional VAT dyes to cabinet/ reactive dyes. This is cheaper, and used out of the cluster, and enables bulk dyeing. It was no longer an important source of rent.

### **3. Relational or Chain Based Rents**

This is a strong source of rent in the firm. Product or new sample development is often a combined activity with high buyer involvement. On site stay and involved sample development on suppliers premise means they invest in the supplier capabilities and spend resources to be personally involved. The reason is that the risk of supplier failure is high especially in high fashion industry. The risk of failure in timing of output and design and seasonal releases is avoided by high relational rents with second tier producers. Key staff of firm like the merchandisers, quality control staff and supervisors check quality of output, and order progress on an almost daily basis- 3-4 stages of quality checking, before during and after production is done.

Design development is a key strength for buyer. It is exclusively and confidentially done by using vertically integrated facilities. Firm understands buyer needs for secrecy. Verticalisation of production with cooperatives and individuals is done.

### **4. Exogenous or Policy Based Rents**

These were not extensively discussed as being key aids to the firm. The GI status of the home furnishings was established by the end of 2010, so its effects could not be studied in detail. The Handloom mark scheme of the commissioner of textiles had also not been widely used, or was not mentioned as providing a source of rent.

Infrastructure and financial and policy of the state was not providing any significant source of rent.

## **B. Governance**

### **Legislative governance**

Setting rules is based or set by buyer needs. Key buyers quality levels determine quality levels maintained at firm. As the key buyer needed the SA 8000 standards for their suppliers, this set the standards at firm. Governance extended

by buyers- internal parties to chain. It is also set by the government regarding environmental standards to maintain. Governance also determined by the segment to which buyer sold. Higher value segments had a greater emphasis on non tangible or felt attributes like social accountability, worker welfare, environmental compliance and fair trade practices which were used by these firms as a promotional strategy for their product lines.

### **Judicial governance**

Standards certified by firm checked yearly by certifying agencies. Because of the standards firm had it was able to directly deal with buyers than through agents. In the case of product standards laboratory testing by third party laboratories was resorted to by buyers. Intertech and SGS were laboratories that took up this role.

At the level of secondary suppliers, judicial governance is seen when buyer representatives conduct interviews with these suppliers regarding firm practices. Inspection of supplier facilities was done yearly by buyer's representatives. Unlike volume buyers like IKEA and GAP where third party organizations were constantly searching for loopholes or human rights violations, firm dealt with less volume, variable orders and highly individual buyer requirements. Also the length of the relationship was more. Punitive action or penalties for non conformance was never resorted to.

### **Executive governance**

Provision of directions or helping suppliers to meet the buyer requirements was seen down the chain. At the firm level on site placement of buyer representatives during design development and product conception stage enabled an unambiguous transfer of knowledge and ideas and instructions. Down the chain, the firm staff, mainly the quality supervisors and merchandisers took up this task, meeting cooperatives and power loom producers with increasing frequency to ensure quality checks and work completion status.

## **C. Upgrading**

### **Improving Process Efficiency Within the Firm**

- a) Dispensing with weaving activity within the firm at a much earlier time, when it was becoming unprofitable to hold weaving infrastructure, or to provide continuous work, was a key decision that freed the firm from dead weight.
- b) Establishment of cabinet dyeing machine in place of vat dyeing to enable larger volume dyeing and uniform color matching
- c) Dispersed production and finishing. Key activities of cutting and measuring according to buyers/product specification in firm. Finishing is done at four centers. Two stitching units are adjacent to the firm, and one at Chalode, located far from the factory, but operating as a self contained unit. Hand embroidery was done in Kochi and CAD based embroidery at Bangalore. Fitting of tassels, pom poms done in Wadakara, south of Kannur
- d) Reaching products to specific country retail outlets for key buyers
- e) Use of logistic firms to take up transport and freight forwarding activities

### **1. Process Efficiency Between links**

1. Use of e business improvements in communication up the chain and providing descriptions of designs, colors and new trends is done. Ongoing communication is done on a day to day basis.
2. Buyers on factory site for longer periods. The buyers invest time and money in ensuring that supplier capabilities do not fail to meet their requirement of design individuality and quality, and confidentiality of the same. They remain on site for week to ten days yearly to ensure the R& D process is exemplary.

3. Use of designers in buyer markets enable generation of new design suited to the market needs. Design suggestions and recommendations rapidly generated and conversion time reduced.
4. Use of cooperative society for vertical integration of design development and modification.
5. Use of out of cluster production facility based in Tamil Nadu, for increasing productivity and decreasing cost of production for fabrics and made ups to suit value segment requirements.
6. Use of links with Tamil Nadu based apparel manufacture for garment production. The links with the spun garment manufacturers based in tirupur, enables the firm to provide a differentiation in their products based on an expanding market for playwear, nursery clothing, beach and night wear for children and babies, that are coordinated with bed linen or upholstery of room based furniture.
7. Use of out of cluster firms for specific activities- tassels manufacture and fitting in wadakara, silk production and embroidery in Bangalore etc enables the firm to limit its activities to a few functions that are higher end, or greater value added, rather than requiring the range of functions and activities the production of made ups demand.

## **2. Improving Product or Introducing New Products**

### **Within Links**

- a) High quality standards of key buyers permeate to other products. Staff of firm attuned to certain quality parameters in product and process that follow the needs of the SA 8000 Standards. This is not sacrificed much for buyers who need less stringent quality norms and correspondingly higher volumes. Firm refrains from taking orders from bulk buyers with just average or acceptable quality



standards as they would have a negative effect on their factory workers.

- b) Introduction of new products enabled by use of pictures magazines, catalogues, mood boards suggested by buying staff or designers and conveyed by use of ICT. Visits to fairs and participation with an emphasis on new or different country markets are key methods of new product development and market expansion.
- c) Strong emphasis on product exclusivity, low reproducibility and uniqueness. Codifiability of design through its conversion to punch cards and the use of specific card readers, in loom adjustments. Market trends that change very season are learnt by firm through firms own efforts and by onsite buyer involvement. Repeatability of design across buyers low.
- d) Customization possible through involvement of key persons in design development, sourcing of different processes that add value to the finished product, streamlining and execution of those processes and enabling organizational learning.

### **Between Links**

New product development was a two way process involving suppliers and designers. Combined activity involves suppliers and designers. There was almost daily communication during design development for ideas, approvals color schemes and production ideas, costing and finishing.

Use of out of cluster firms to carry out specific activities or tasks like fitting tassels, embroidery work, appliqué work etc is significant.

### **3. Changing Mix of Activities**

- a) High value finishes and treatments are given, to increase value of the fabric. Out of firm treatments like zero shrinkage, lamination of fabrics

done at Erode, brushing fabric at Erode, quilting (Salem), printing with superior colors done at Tirupur.

- b) Weaving was dispensed with. Within firm.
- c) Tailored sourcing- reaching products to specified retailers as requested by buyer.
- d) Continuous replenishment or automatic reordering of certain designs or fabrics done on weekly basis. This is enabled with weekly stock figures from buyer warehouses.

#### **4. Moving Into New Chains**

This has not been done as an established process though it has been taken up to a small extent. The firm desired to enter into these new value chains over time as there was demonstrated scope for the same.

- a) Need to enter mass market where volume was a key requirement and fair quality as opposed to high quality was a requirement. This needed a separate value chain that made use of production centers in Karur, Tirupur and Erode, that enabled large scale production.
- b) A lot of interest was seen among existing and potential buyers for children's garments and play wear that was coordinated to rooms color schemes or furniture upholstery. This was a difficult product class that the firm had developed expertise in and it called for streamlined sourcing of a number of tasks and final assembly or finishing in factory premises. This was a potential market that firm could move into on large scale in the future. It again utilized production centers in Tirupur and different chain strengths.

## **6.4 Individual Case Analysis of Firm S**

### **6.4.1 Bird's Eye View of the Firm S**

#### **Key Selling Propositions**

The firm pledges to provide its customers with the highest quality products and best services. The aim of the company is to ensure '*the finest in home textiles*' enabled through a concentrated effort in four key areas:

*High Quality In-House Fabric Production:* weaving factory with 24 rapier looms has been imported from Europe, including Dobby, Jacquard and Terry Weaving. Handlooms are also used for hand woven fabrics, and extensive dye house with manual vat dyeing as well as modern cabinet dyeing machines exist.

*Textile Processing:* high quality textile processing and finishing enabled with imported equipment. Sewing machines with special equipments and fittings, embroidery machines and accessory machines for fusing, appliqué cutting and eyelet fixing are part of this elaborate infrastructure.

*Quality control:* this is ensured through an excellent colour matching system and lot controlling. Hundred percent fabric inspection after weaving and stitching is done. Quality enhancing equipments like dryers and steam presses as well as curing machines ensure perfection in final product presentation.

*Care for the environment:* this is done through operation of an effluent treatment plant for waste water from dyeing. Treated water is used for reforestation measures in their compound and other treeless areas.

#### **Awards**

The firm received the 'Best Upcoming Exporter Award' from the North Malabar Chamber of Commerce for 1996. ISO- 9001-2000 certified since 2002. It

was recognized as a Star Export House. It is also a Gold medal winner from the government of India in 2003-04 and 2004-05.

**Products**

Kitchen linen, table linen, bed linen, curtains, outdoor textiles, cushions, rugs and specialized promotional items.

**Destinations**

USA, Japan, EU countries, Australia, Singapore & New Zealand.

6.4.2 General Value Chain Map of Firm S

Table 6.3: Sequence of Activities in Firm S and Approximate Value Contribution to Final Product Cost

categories of buyers	Department store chains (not mass market)	Importer wholesalers and distributors	Larger retailers with multiple supply hubs
Retailer/final buyer margins	25%	15%	30%
Designer margin	12%	10%	20%
Distributors margin	Accounts for 30% of final product cost	Accounts for 20% of final product cost	Accounts for 30% of final product cost
Trucking to warehouse			
Destination port costs			
Shipping and forwarding agents	5%	7%	10%
f. Retail packing/ master cartons/loading	20% of product cost	25%	30%
e. Steam Pressing, folding	Within kannur facility	Within kannur facility	Within kannur facility
Quality inspection			
d. Fixing of product labels	Within kannur facility	Within kannur facility	Within kannur facility
quality inspection			
c. embroidery, finishing works, appliqué, stitching	Within kannur facility	Within kannur facility	Within kannur facility
b. accessorizing, stitching and finishing	Out of state facilities (printing)	Out of state facilities (printing)	Out of state facilities (printing)
a. Fabric cutting according to design			
8.Made ups manufacture	Within factory	Within factory	Within factory
7.For furnishing fabric - steam pressing, rolling, vacuum packing	Within factory	Within factory	Within factory
6. Return and inspection	Within factory	Within factory	Within factory
5. Treatments –lamination, calendaring, stendering, flame resistance, water-proofing out of state	Treatments of fabric done within kannur facility or out of state facilities	Treatments of fabric done within kannur facility or out of state facilities	Treatments of fabric done within kannur facility or out of state facilities
4.Inspection of fabric after production			
3. Production of fabric outside of company	Handloom cooperatives 10%	Own Power loom in Kannur 75%	Individual weavers in Kannur 10%
2. Production within company	Sample development	Powerloom production	

### 6.4.3 Apriori Codes Discussed From Interview Transcripts

#### 6.4.3.1 Sources of Rent Within the Firm

##### *Technology as a Source of Rent*

##### **INTCS S – 5**

In January 2008 firm S started a power loom factory at Chalode, in Kannur. It was a rapier loom with large production capacity. The firm was able to do this because it achieved an export surplus and target achievement. At the national level the firm got a grant to import capital goods duty free. It was able to purchase this machine without duties. The need for investing in such high scale production was felt because handloom orders fell. Quality of local power loom also began to fall. The firm recognized the need for its own looms. The buyers' need for special promotions every three months launched at new design fairs became important. New sample development and designing innovation was strongly emphasized. It became a highly competition intensive industry. Much shorter development period was called for. The firm needed its own facility as reliance on local handloom and power loom became problematic. Quick pace of production meant that firm could make products very fast. Productivity of the power loom was very high and this was agreeable to buyer as is able to get the idea of sample very fast.

Being one of the most technology intensive firms in the district, the investment of the firm in this area was significant. The respondent felt that this was one reason how the firm was differentiating itself. It was a significant source of rent

- a) Flat bed quilting machine-Increases specialization of products – combines embroidery and other designs with quilting. Design intensive quilting can be done - quilting is a high value adding process.
- b) Roller bed quilting machine – commonly used for bulk production of bulky products like beds – padded items
- c) Computerized embroidery machine –intricate works like appliqué, sequins, patch works etc done with this. Two head embroidery and six

head embroidery tools. The firm was able to do more pieces output with these – Still heavier orders was done at Tirupur.

- d) Sewing machines – 200 numbers
- e) Over locking machines
- f) Button attachment.
- g) Button hole finishing.

All equipment used to improve the sewing based operations and increase the look and finishing. They are useful to increase value of product.

**Memo1:** The advantage of these sewing/stitching based machines is that sample development can be done at very short notice. This is advantageous as firm's sample development times fall drastically. Buyers can get estimates very fast. This helped in decreasing time of sample development. Costing is prepared stitch wise depending on number of stitches so the firm is able to develop and cost sample options within very short time frames. They are able to suggest changing construction of the fabric recording to number of stitches or thickness of embroidery quickly.

**Accessory machines** – For attaching or fixing accessories onto products

- a) fusing machines
- b) eyelet fixing machines
- c) snap fasteners
- d) Carding machines
- e) Vacuum Packing
- f) Ironing tables 20 Numbers
- g) Steam irons
- h) Vacuum Tables helps to make ironing more effective
- i) Flat bed roller machine – Table cloth sheets both through this to remove wrinkles useful for large area fabrics.

- j) Cutting machines
- k) Curing Machines - to remove hidden moisture in products. This is especially important in humid climates.

**Quality control related machines**

- a) Needle detector machines
- b) Curing machines
- c) Crocking machine – to test rubbing strength – Done on dyed yarn and fabric
- d) Colour matching cabinet used to check colour match.

**Memo2:** Development of a laboratory facility has become important as many firms need to have specific tests in place for quality assurance. Governance measures have specified the conduct of such tests. The necessity and regularity of such tests were only increasing. Colour fastness was checked at Textiles Committee lab.

**Memo3:** Need for laboratory facility was increasing. Regarding R & D of new samples and fabrics an entire set up of weaving, dyeing, finishing etc was required. The firm was still deficient in the dyeing section. R & D is often done on a per customer basis. The buyers who visit the factory normally remain for a week. In the premise of factory, they carry out in tandem with firm staff, an intensive product/sample development exercise – where the design and construction of potential products is worked out. Costing is also done. Product variations quickly made. For the need for sample weaving, dyeing finishing etc to be carried out in the factory premise handlooms and basic VAT dyeing for small quantity is kept.

***Organisation of Work***

**INTCSS- 3**

The respondent talked about the order processing that happened once the order was confirmed. The production process was in house. Production planning started with:



- 1) Planning department – Approved buyer order is taken with approved sample developed and sent to production development. The approved sample is kept in sampling department. The order received from the buyer is checked for:
  - a) Size of order.
  - b) Items specified
  - c) Colour changes, coordinated items etc.

Once order confirmed a schedule of operations are decided accordingly in production planning department.

- 2) Yarn purchase - Yarn sourcing is done by this department.
- 3) Accessory purchase department- things like foam, zippers, thread, buttons, polyester fiber, polyethylene covers and schedules to be followed regarding the same are decided.
- 4) Yarn dyeing department- this department develops a dyeing plan. This is done before the yarn is sent to the dye house. If carried out by cooperatives or other producers specification to dye house is given to them. Colour matching strictly checked. Dyeing department must also ensure quantity and fastness of dyes.
- 5) Fabric weaving- this was carried out by different methods, usually a combination of options. These were:
  - a) Company's own rapier loom at Chalode where high volume production could be carried out.
  - b) Requirement for floor mat or rugs was given to a single individual who sub contracted weaving of mats to many small home run units. Home workers were used. They were organized by this individual. Mat weaving was taken up as a substitute for fabric weaving by many handloom weavers who struggled to find work during lean phases. Mat weaving was preferred because the work was easier and less strenuous while the wages remained the same.

- c) Job works to individual power loom micro enterprises run by individuals within Kannur who within their home premises used four to five looms or one or two looms to carry out conversion of yarn to fabric, for export firms.
  - d) Production was also carried out at handloom cooperatives. These were linked to firm production for decades. Pappinassery Weavers Society, Kuthuparambu Weavers Society, Kalliassery Weavers Society and Kolathuveyil Weavers Society were some of the societies that carried out handloom production for the firm
- 6) Once the time allotted for production was over, the production department of the firm ensured woven fabric was collected from difference producers. This was done using a system of company owned trucks and the use of milk runs.
- 7) Once the finished fabric reached the factory, it was checked for quality by the Quality Control department. Further, specific processing of fabric or treatments was carried out this stage. Activities like preshrink processing, fire retarding finishes, silicon finish, plastic lamination etc. was done by transporting the fabric to out of state processors in Coimbatore and Erode. Milk runs were again used for this process. Every third day the finished product was transported back.
- 8) Finishing department- the final made up manufacture was done as an in house operation. The activities of cutting, stitching, filling with PUF, in the case of cushions or padded items, sealing or fusing was done in house using the vast finishing set up that the firm had invested in. According to the required pattern, work is carried out in house. Embroidery or stitching of accessories was also done. Cutting, stitching and tagging of accessories was also done. Tagging of labels, packing with cellophane and plastic as well as boxing was done. The role of the supervisors was greatest at this time. Two weeks time was given for this activity.

**Memo1:** The firm did try to use within cluster fabric finishing facility promoted by Hantex at Chirakkal, a place in the district. They felt that the output was unsatisfactory and consistency was not there.

**Memo2:** Regarding time allotment for these operations it was said that the scheduling of all these operations took three days. The process of ordering and purchase of yarn two to three days, the process of dyeing another fifteen or twenty days, and weaving at the different locations took fifteen or twenty days. Finishing was carried out over a twenty day period. In short, thirty or thirty five days was necessary to complete an order.

### ***Human Resources as a Source of Rent***

#### **INTCS S-5**

Rents in human resources were directed towards the use of team work being possible. The decision making process of the firm involved all the concerned personnel. Opinion sharing was allowed.

**Memo:** In key departments like the dyed yarn department and dyed yarn issue, the fabric department, stitching department and packing and dispatch department, specific personnel were in charge to ensure accountability. Quality inspections were carried out by different personnel- quality supervisors were allocated to particular buyers. Their key requirements were taken care of by one or two persons. The delivery related requirements were taken care of by another set of individuals.

The orders of the important buyers (in terms of volume or value) are handled by a group of personnel drawn from all five departments. This means specific persons from the dyed yarn, and dyed yarn issue department, finished fabric department and packing and dispatch were each allocated to larger buyers. Four supervisors for three to four key buyers was the usual equation. For other buyers two groups of personnel were required. One set took care of the day to day requirements of each order that was in processing, while the second set catered to

the needs of the buyer when they visited the supplier's premise, which was quite often. They were usually the more experienced personnel.

### ***Availability of Suitable Human Resources***

#### **INTCS S5**

The recruitment of staff was usually from unskilled persons. The persons who had basic qualifications were given three months training before being taken up. As attrition was a continuous and common issue, new workers were trained to take responsibility side by side existing staff.

#### **The Sources of Technical Staff**

Technical persons recruited by the firm came from two sources:

- a) IHTT (Institute of Handloom and Textile Technology), Thottada, Kannur: a three month training period was given to the students who had come to the company S for their course internship. They were given an exam after this. If they were successful then they were appointed.
- b) SSM College of Textile Technology, Coimbatore: A four year PG diploma in Textile technology was given by this college. The company went to the college for campus interviews.

**Memo:** qualified personnel for higher level technical staff was given training in

- a) Merchandising
- b) Quality management
- c) Technical aspects of the fabric

Production side activities were managed by them. Despite professionals having four year experience and a training period, a greater emphasis was given on fashion designing in their institutes. Dyeing and weaving and fiber's technical aspects were not given enough emphasis. This meant that they had to undergo a repeated training within the company again, on joining the firm.

### **HR as a Source of Rent**

The firm S believed that its success lay in the strength of customer handling. The core team was family members of the buyer and they had a continuous and an ongoing contact with buyers. They managed operations and ensured their guests/buyers were satisfied. This was possible as buyers were put up in the company's own guest house located close to the company proprietor. The ability of the firm personnel to communicate and understand their needs was another advantage.

**Memo:** A key issue was the need of the firm to scale up. The organizational set up needed to be improved. Interaction of the factory personnel with buyers was key for market success. The physical infrastructure of the company needed to be built up and with it the lower level workers also needed to take additional responsibility. The respondent mentioned the case of Tamil Nadu where the work culture was different and task oriented. In Kerala the people orientation was too high and they were not driven by their tasks or work duties. Despite these drawbacks the firm was able to keep customers happy ninety nine percent of the time.

The quality was checked through the daily meetings, with the quality personnel and product supervisors. ISO related quality checking was also done at regular intervals especially for specific departments.

#### **6.4.3.2 Relational Rents**

##### **INTCS S5**

These rents were seen in the firm's relationship with second tier producers in the initial stage of the firm. As they began to have their own production, they began to depend less on the lower level linkages and the relationship with their buyers were firmly established. This was particularly true with the earlier buyers. This relationship enabled the firm to establish its quality system and process flow in the initial stages.

### 6.4.3.3 Resource Rents

#### INTCS S3

In speaking about the specific resources that gave the region an inherent advantage, the following factors were mentioned:

- a) Softness of the ground water resources of the region
- b) Dyeing brightness was high because of the soft water and use of VAT dyes. The wet dye process increased dye penetration, colour tones and richness of the colour.
- c) Kier boiling – this was a special process of Kannur where raw yarn was boiled for ten hours or more at high temperatures with caustic soda. It increased the strength of the yarn, reduced fluffiness and made yarn fibers stiff and sticky. This increased absorbency of dyes.

**Memo:** These resource based advantages were fast disappearing with changes in the dyeing process. The use of cabinet dyeing was increasing as it increased the efficiency and absorbency. Processes like reverse osmosis made hard water soft. This meant that the same dye efficiency could be obtained in areas like Tamil Nadu, where hard water sources were predominant. In short, regional benefits were fast being lost.

- d) Awareness of good quality: What was inherent to the people of the region was their general consciousness of good quality. The weaving abilities of the local population stems from their weaver based roots as well as the systematically learned techniques over decades of German missionary shop weaving establishments. It was embedded in their psyche, and was part of the social linkages and the networks that the region harbored with different levels of producers, ranging from the larger looms/ factory based, to the home worker, with his one or two looms and family members carrying out pre-loom activities.

- e) High flexibility in order size: The region specific strengths mentioned were high flexibility in volumes of production. There was high variation in the meterage requirement by different buyers, but this need was catered to by using different production sources.
- f) High variability in orders: The designs and complexity of weaves varied across orders and buyers. Sometimes color variations were woven, but mostly, the patterns were different, across seasons, and across specialty products ordered as special promotions.
- g) Short runs: The firm was able to develop samples and send them closer to the peak season. The new product development process was rapid and it enabled them to send product variation closer to the selling season and in smaller lots. Buyers were happy because the risk of non performance in the market could be avoided, if they could source in shorter lead times with less order sizes, incorporating changes in market acceptance or changes in final product characteristics.

## **INTCSS – 2**

In response to a question about resource based strengths like bleaching, boiling and colour absorbency, the respondent agreed that formerly this was a distinguishing characteristic. In Kannur fabrics go through a long – at least 8 hours boiling – this greatly increased absorbency of dyes and colour fastness. This used to be important strength of the region – but this was fast being lost.

The reason was now a days dyeing was not done in the factories because of high investment cost, the requirement of water in plentiful supply, the systems that needed to be in place because of Govt. based legislative Governance – limited the ability of firms to take up dyeing in Kannur. It was now being done at Coimbatore at specialized dye houses in which undertook dying as major job works.

**Memo1:** It was possible to do this in Tamil Nadu because of the greater investment in mechanization undertaken by region as a whole. Tamil Nadu was

one of the largest users of Government TUF fund. These firms there had gone for mechanization in every area in particular pre loom activities, and finishing works .They had invested in state of the art equipment and the latest finishing equipment. This enabled them to deliver world class dyeing and weaving works as well as provide the support services needed by sector as a whole in areas like fabric furnishes or pre treatments, accessories import and distribution as well as manufacture, and water treatment regulations, following regulations for chemicals dyes etc. Use of import/manufacture of /dyes/chemical – these support industries were built up along a network of the fabric manufacturing industries so that entire regions focused only on single trades. A case in point is the printing industry of Sivakasi, the fireworks industry of the same region and hosiery industry of Tirupur.

**Memo2:** A clear decrease in the importance of these attributes is seen when one looks at a range of interviews. Reasons appear to be.

- a) An inability to invest greatly in secondary activities like dye house or dyeing facility incorporating very stringent environmental restraints and huge investment. It works out cheaper to carry out the process outside of the cluster at facilities which specialize in this; dye houses in Tamil Nadu.
- b) The availability of soft water or abundant water sources is becoming questionable.
- c) The disposal of waste water becoming problematic.
- d) If dyeing can be done at cheaper cost outside the cluster that is preferred provided colour consistency is maintained.
- e) In the event of dyeing done outside of cluster quality assurance is not compromised because on a weekly basis or twice a week quality control supervisors travel to dying factories to examine fabric ensure quality, enabling continuous quality assessment.



### **6.4.3.3 Policy Rents**

#### **INTCS S4**

It was seen that within the cluster, shifting suppliers was becoming common, being a narrow competitive space. All firms knew what others were making, though there was no open discussion about the same. An example was given about how the ethics of the trade was maintained between firms. He described a case where a former buyer of firm M, shifted to firm S. but this information was conveyed to firm M, which agreed to source from firm S, for a margin, and continued to serve his buyer. This was not always the norm.

The firm had planned an expansion, over a five year period but this had been hard hit by recession as many buyers had lost money or gone bankrupt. The firm S had been protected by the ECGC to an extent. Other policy based schemes that were mentioned as useful to the firm were:

DA- Documents against arrival

DP – Document against payment

LC- Assured payment from the bank

In 1980-85 20% cash credit subsidy. 100% import could be availed by EOUs. 5% of this import allowance could be sold. Excise duty drawback and the DEPB scheme remained at that time. Many financial incentives had been stopped.

#### **Poor External Rents:**

State level support was not much. In 1994 though expansion was done by installing the rapier loom, electrical connection for the same was obtained only in 1999. Government rules were a barrier to growth. The large volumes of export had enabled the firm to obtain a benefit of duty free import which it availed when it purchased rapier looms from Europe. This benefit was negated when the firm was asked to pay an excise duty at the state border. This is despite its export status. All government level legislative requirements were met but the state level support for the industry was poor.

### **Physical infrastructure rents**

The respondent felt that the firm had one of the best infrastructures in the region. It was directing its efforts towards making an entire in house facility to cover all stages of product design, conception, sample development, fabric production, made up manufacture and finishing.

Its next aim was to develop an advanced dyeing facility. The firm had very good fabric finishing processes and machines. It wanted to increase the structure and size of its facility. The requirement of electricity was the biggest deterrent. 23,000 units were provided while 46, 000 units were required. The rest had to be bought at surcharge.

#### **6.4.3.2 Sources and Types of Governance**

##### ***Legislative Governance***

##### **INTCSS – 5**

Governance in the form of the SA 8000 standards was the norm among furnishing suppliers. Exporters in Kannur found it difficult to adopt these standards because of clauses necessitating management to help workers to form unions. This was worrying to firms.

**Memo1:** The respondent gave an example where adoption of standards did not automatically lead to rise in efficiency of workers. Ambadi Exports, the home textiles wing of a multinational company based in Chennai, had started giving workers minimum approved pay (65+45) in the new made up factory that they had established in Kannur to meet the required standards of their buyer in the UK. This had stipulated rules for factory layout, process flows and products. Worker related standards were also established that met the SA 8000 criteria. Once this happened, there was a migration of workers from other firms in the region. Despite not having a shortage of workers, as new staff members were willing to join to avail of the better payment terms, firm was still struggling to survive because despite increased pay offered to workers, as per the legislative governance effects of buyer

imposed standards that originated from certification bodies, or private organizations, they did not have an uplifting effect on the actual output of the firm. The productivity of these workers was still poor. Company suffered as their cost of labour went up but worker productivity fell. Their overhead costs became higher.

**Memo 2:** This led one to consider now difficult it was to the establish SA 8000 standards if consequent returns were not there. Despite added investments the standards may fail to generate the additional revenue expected from it. This was a classic case where standards burdened the exporter but they could not do without it because it was demanded by the buyers. In the case of the aforesaid company products were sold /marketed through its marketing office based in London, UK. It was a company that dealt with high end buying establishments, individual clients or distributors catering to the premium and upper premium segment. These firms often required establishment of ETI or Labor /Worker welfare standards that ensured that these companies would not suffer a negative exposure regarding their supply countries and supplier factories, if it was brought up by media. This is a case of legislative governance being imposed but with no evidence of executive governance. Such quality requirements and stringent measures are passed down to the second tier producers as well. Power looms, cooperatives in the region and individual weavers expressed that the orders from this company were complicated, requiring high weaving skill & 100% colour matching. They were difficult orders to match for quantity and levels of dyeing defects. Rejections were imminent. This firm was able to impose these standards and not be affected by the negative effects on its producers because the marketing of its fabrics and made ups was not controlled in Kannur.

#### **INTCS S-7**

Firm specific governance is seen. Specific quality levels needed to be followed. The firm followed state government regulations. Though firm was not SA certified, they based their standards on maintenance of state government

specified minimum wages, allowances, DA etc. within cluster legislative governance seen by government bodies carrying out periodic inspection and issuing certificates in recognition of these standards. Some judicial governance by state government is also seen.

### ***Product Related Standards***

#### **INTCS S-7**

Testing of product standards was normally done. Many buyers emphasized testing. The firm carried out some testing in their own premises and some were carried out by the Textiles Committee in their own testing laboratory facility. Fabric quality standards also tested on the factory premise. Testing was emphasized by larger chain store type buyers because of the continuous threat of media related exposures of the flaws that suppliers may have. This would lead the company to penalize the vendor, causing the firm S to lose the order altogether.

In house tests (firm specific standards) conducted on finished fabric are:

- a) Washing Test
- b) Rubbing Test
- c) Colour Matching

The quality department handled all in house quality management as well as buyer specified testing requirements. Quality certification was done by Der norske veritas (DNV) for ISO auditing. SA8000 equivalent government specified labour standards were verified by the buyers own auditors or through their own departments. Large retailers like Marks and Spencer's (M & S) and IKEA had surprise visits.

### **Lack of Support in Ensuring Legislative Governance**

The minimum wages, bonus, no child labor, DA and PF requirements were highlighted by buyers but no support in terms of cost. There were huge costs incurred when such legislative governance insisted upon by buyers, certifiable by third parties, but there was no recognition of the costs incurred for maintaining the

same. There was a failure on the part of buyers to incorporate such costs to supplier's prices, so that the suppliers were squeezed both ways. They had to maintain these standards but did not receive price considerations for the same.

#### **INTCS S-7**

Labour availability was a key factor affecting governance measures. The respondent felt that working conditions needed to be made better to get workers. Availability of good labour was decreasing. As a pool of workers constantly shifted between firms, they could be influenced by better working conditions, so this was an area that firm was trying to establish a difference.

#### ***Judicial Governance***

#### **INTCS S-7**

Bigger buyers had stronger governance concerns than smaller ones. The regulatory practices and quality standards were more of a concern for well-reputed, branded buyers, usually specified through personal communication. Representatives of such buyers came to the factory or sent representatives, unannounced to check overtime, attendance registers, and leave records, without prior knowledge. Somewhat stringent checking was done. This practice of control or enforcement was increasing and not decreasing, it was becoming the norm.

#### ***Legislative Governance Down the Chain***

With societies and power looms, the company specifications needed to be followed whenever yarn was taken for conversion to fabric. Rule making was there at firm level, about fabric characteristics, stitching, packing, regulations, dyeing, dyes to be used, colour matching, etc. this was specified on a product to product basis. It was implemented by supervision. Product standards set on basis on order type and segment or buyer for whom order was made. The standards that firm S was called to follow were:

- a) British Retail standards specifying fire retardancy required for cushion, filling and upholstery.

- b) Dyeing standards – AZO dyes are banned. AZO free dyes and chemicals specified.
- c) Reach Standards for EU buyers. From 2009 this has been implemented.

### ***Process or Working Standards***

#### **INTCS S-9**

ISO Standards, SA standards, DNV BVQI Approved ISO standards all related to working environment. Facilities for workers, welfare measures, health and safety measures and wages, allowances, etc needed to be provided by the firm. For Japanese buyers, quality testing standards were specified called Japanese GIS standards. All other buyers used ISO standards as a basic requirement, for EU and US based buyers. This was at three levels – high, medium and low.

Though the standards were broadly under the same head, different levels of standards were taken for different buyers. In face the degree of governance was specified by adherence to particular levels of standards. According to different categories of products, different standards were required. This is also determined by the level of standards buyer required which in turn was determined by the customer segments or retail establishments they sell through.

### ***Lack of Support for Legislative Governance Maintenance***

Companies like IKEA, M&S, H&M and Habitat had very stringent laws regarding labour standards. This was not because of some genuine interest in the upliftment of the working standards of their supply countries, but the fear of their reputation being sullied by an exposure to the contrary. For H& M, the testing and certifying of one item cost Rs. 27,000. It was very restrictive to the supplier, who had two options

- a) To increase volume of output.
- b) To increase unit price of each product. These options were available for suppliers. The penalty for non conformance was very high.

Standards like ISO 6330 or ISO 3575 V commonly used for larger retailers. Usually up to thirty percent of total value of sales was caught up in indirect costs that only the supplying firm incurred.

### ***Evidence of Executive Governance***

#### **INTCSS- 9**

What were factors or areas discussed during the buyer's visit to the suppliers premises? This centered on the following activities or areas. The contribution of each party to the final product developed was discussed. Buyers visited the factory for developing products or seasonal releases six months hence. The planning for the new releases was done six to eight months earlier.

- a) Discussion of colours- the seasonal combinations to be used. This is contributed by buyer as they had knowledge of the forecasted season's colours.
- b) Product form/shape – Types of product. What fabric is possible, what variations can be done, the fabric construction, costing possibilities etc. the supplying company contributes this information..
- c) Fabric design- The engineering and technology aspects. Whether dobby or jacquard- whether to print, the costing etc.
- d) Construction – The yarn counts- picks per inch (PPI) and picks per centimeter (PPC) are all specified by the buyer and contributed by both firms. Seventy five percent is contributed by firm S for 3) and 4)

Rapport building between producers and buyer is enabled through this conducive environment. Maximum facilities and maximum number of options are to be provided to buyer. This makes the executive governance process easier. Discussions about raw material availability, costing, discussion with designers – combined meetings are held with personnel from both sides. Suppliers and buyers' staff discusses and ensure do ability of the order. Buyer's staff is usually designers or vendors of the company.

**Memo1:** The process is combined together with certification aspects will hope went seasons products, colours to be used options available. Costing delivery schedules, the activities to be carried out at each that clearly to be achieved about next seasons items, advantage of this comprised reciting that happened twice a year. Clarity of what was expected from supplier – clear focus – on what should be produced. The key factors to ensure in these products and enables a greater chance of factory samples being passed for production.

**Memo 2:** What was the benefit to company as a result of buyer visits?

- a) Clarity of what firm was expected to produce in terms of samples that had greatest chance of being passed
- b) What were the colour trends to concentrate on for that season?
- c) What was the chance of orders being passed?
- d) A better codification of design class to level of middle level staff

#### ***Discussion on Judicial Governance***

##### **INT CS S-9**

A discussion followed discussing the kinds of legislative governance that firm had to follow and how enforcement was done.

- 1) Enforcement through laboratories nominated by the buyers: Laboratories like SGS and Intertech, carried out sample testing for the buyer. The supplier firm was asked to send a sample to approved labs and it is tested for the specific parameters. A copy of the result with test parameters is sent to the buyer and copy to the firm.
- 2) Online inspection at supplier site: The company (buyer) specifies the minimum order quantities. The buyer's own team comes for inspection at supplier site. Physical inspection is done. The company pays for travel cost
- 3) Physical inspection by nominated agencies just before dispatch. SGS, BVQI, Textiles Committee: these organizations inspect goods and then only dispatch them.



- 4) Buyers suggest buyer's own agents who carry out inspection for them.. This is usually done at three time intervals:
  - a) The first inspection is done to check order processing, this is to determine whether the procedure has started or not, and whether the timing of activities is right in starting the production process.
  - b) Middle line inspection is done to check production line. The stitching, coordination etc is done.
  - c) Final inspection is to be done before dispatch. Agents are located at entry ports of Delhi, Mumbai and Kochi.

### ***Judicial Governance***

#### **INTCS S-9**

Another group of firms that was now exerting a judicial governance measure was buyer nominated shipping agencies. These are taking up the activity of ensuring timing and delivery. The cost and freight is usually given by the supplier company but the shipping agent who carries out this activity is given a fee by the buyer.

**Memo:** This enables the buyer to transfer his costs to the seller. They work through a panel of agents. Buyers now have their own shipping and forwarding agencies. These companies do customs clearance, legal documentation etc. Usually these are shipping liners or cruise liners. Buyers send request to shipping companies and they link with suppliers, playing a role with bargaining power. Sears was an example of a company which did this.

The drawback was that the supplying firm lost leverage in this process, because buyer nominated agencies charged higher fees per order (Rupees thirty five thousand) which the supplier was bound to pay. This was opposed to the case when supplier appointed a freight shipping and forwarding agent based in the country, where the cost was only rupees ten thousand.

### ***Judicial Governance of State/Centre Origin***

#### **INTCS S9**

Government related governance rules at state and central level related to workers and work conditions were related to the welfare fund, PF, ESI, Factories Act, Health and Safety, Minimum Wages, Working conditions. This was checked by yearly inspection of factory premises by corresponding officials. Pollution control board also had an yearly check on the water treatment or effluent treatment plant installed in the firm. Buyer's also required yearly inspection and checking of statutory requirements and additional standards like organic standards, ISO Standards, buyer standards. The judicial governance was never in the form of sanctions, or sudden actions cutting off supply contracts or cancellation of vendor-ships. It was handled usually by open communication measures and negotiation.

#### **6.4.3.3 Sources and Types of Upgrading**

##### ***Need for Upgrading Recognized***

#### **INTCSS – 5**

In 1985 Company focus was to be a good exporter. In 2009 the need had evolved. Firm interested in more value being generated to firm.

**Memo:** Own brand development was key area that firm was thinking of. The reason was strong support from its German buyer which was a large scale importer. He was willing to distribute product in German markets. He was the financial and marketing advisor of a chain store in Germany and the warehouses that the company had would be used as distribution point to other EU Markets. Through this relationship the company S planned to enter into domestic markets with same quality and finish of the export quality of products. Design development was buyer based – but product value would be very high as it would fulfill customer's need of dressing up homes with required products for every room. The aim was to be a total solutions provider having bedding, floor requirements and other coverings. Kitchen, bed linen, life style items, color matched and complementary textures and colours would be on offer. The

respondent felt that there was an unfulfilled need or demand for this had not been fulfilled by existing competition.

### ***Functional Upgrading***

In response to the question about what were the new activities which the firm took up that could represent upgrading, the respondent said that there was evidence of new functions being taken up. They had taken up some of the functions previously done by the buyers. These were higher value functions, and involved some degree of forecasting. It involved access to buyers' inventory levels which indicated a high degree of trust between the two.

**Memo:** The respondent spoke of the upgrading by function. The question was whether buyers gave access to their inventory levels to suppliers to enable automatic re order and tailored sourcing. Where access to weekly demand figures, the next batch of products was sent this was being done with their Japanese buyer. At start of selling season 50% of order was sent. Sales data was passed on to supplier. On a weekly basis automatic resupply was done. Possible because for Japanese market colors were easily forecast able passed on past performance. Earlier buyer suggested now supplier was able to suggest forecast requirement. Not a common practice only because of high degree of trust and strength of relationship

### ***Product Upgrading***

#### **INTCSS – 7**

Respondent felt that nature of product, or by origin itself, products produced in Kannur are high value goods. The reason being they belong to higher category high value category because of small batches of product and high variability in each batch.

**Memo:** This means that a certain inbuilt degree of upgrading already exists in the product. The product is already of some higher value, so have not been produced in large/bulk quantities. Product upgrading up seen as products is made in smaller

batches, with a great deal of difference between batches. Process upgrading also seen as firm has established a number of equipment that are useful to increase finishes, or increase value of end products. This is especially true of made ups. Less for furnishing were quality is more a function of counts, thread, weaves and seasonal variation in color, in texture etc.

### ***Product Upgrading***

#### **INTCSS -9**

He felt range of product also gave them a competitive edge. One product alone may not sell well, but range of color coordinated items placed or pooled together as a kit was a key to success. This was possible only through upgrading of products. Different products put together as a range or set ensuring uniform quality and finish.

#### **INTCSS -7**

Some of the products were sold in sets or combinations of items. Some of the items may be out sourced others produced in house. In deciding value of product, this depended on additional labor component. It did not mean more raw materials. The increased value was enabled by increased effort expended for the product. It meant that the product received upgrading in terms of its labour component, the design changes and the difficulty levels of making the product. The sourcing of the combination of products involved linking up with various sub suppliers and ensuring quality was maintained, and delivery schedules adhered to.

#### **INTCSS -10**

The respondent felt that up gradation of firm activities was enabled through a more clear or different focus. Focus was on taking up activities that added more value to the firm and this was a naturally progressing activity. At the time of the interview the respondent felt that it was time for company to upgrade both product and activities. The firm was feeling the need to enter into activities that would give more returns.

**Memo:** Especially related to this was the issue of branding. Till then they had been creating brand names for others. The firm had the advantage of high production capacity and the experience of so many years. They were thinking of starting out on an 'own branding strategy'.

This strong belief in branding stems from the following points:

- a) Firm's high production capacity needed to be utilized. Technologically it was one of the most superior firms in Kannur. It had the ability to produce in much more volume than it was presently producing. This benefit needed to be utilized.
- b) Firm S like other firms in the cluster dealt with a high degree of variability in product orders. Different kinds or levels of buyers called for catering to much variability in product. Short runs, smaller order sizes and high variability of orders were traditionally done by firms from Kannur.
- c) The difference was that the firm had erected strong technological differentiators.
- d) This variability in production lots and sizes was difficult for firm which had invested to such large scale. It would get the benefit of this large scale only if it produced in large volumes. It would justify investment in such scale. Now the high capacity of production was not being sufficiently utilized.
- e) An outcome of this was the firm realizing that large scale production and finishing alone was not enough. It would have to have capacity at all stages - dyeing, weaving and supply. Backward integration also needed to be done to make full use of large production and finishing capacity.
- f) A way to do this was to engage in own branding or in creating fabric for a particular brand which would have market acceptance.

***Process up Gradation***

**INTCSS 5**

The firm believed that a one of the kind production facility – highly efficient rapier loom was a key success factor. The next benefit they felt they had with them was the buyer's strong inputs and design suggestion. Their own interaction and design approval system ensured that buyers or their company employees – designers, costing experts or merchandisers visited the firm and had an active and personal participation in design conceptualization. Departmental approval was done by both sides giving inputs from both supplier and buyer. The supplier was involved in suggesting do-ability or costing suggestions or designing the possible price points.

The respondent felt that as next step a key need would be the existence of a complete set of operation under one roof. One facility that they felt was necessary to develop in a large scale was a dye house – which they lacked. Since the investment for this was very high it would have to be followed by establishment of in house weaving to achieve economies of scale. Development of product R & D with a focus on developing new samples, designing new fiber combinations etc are areas that needed to be built up into competences.

**INTCSS – 7**

Respondent reiterated that basic categories of goods could not be produced in Kannur with success. Most firms in the cluster would not be able to get an advantage in creating basic low price items or made ups. By origin itself goods produced in Kannur are high value products. Bulk production in Karur was opposed to small batch or limited size production in Kannur. He felt that if firms in cluster demanded to take up low value high volume production like Karur they would only lose money on it. This is because firms do not have the huge production facility, warranted by large scale producers.

Firm also is not able to claim huge scale of production. In high value item they can be competitive becomes of production facility. Having a facility for

quality finishing and packing was a source of leverage. It was better for them to produce high value goods as they had facility for the same.

#### **INTCSS – 7**

A key order winning characteristic that the firm had was the presence of high quality finishing within the firm. The equipment for the same was here. Finishing and packing equipment enabled new and different finishing for higher quality products. It enabled higher prices for final product. This was a strategy for upcoming orders as no two products were the same. This enabled them to choose quickly and get promotional items or season releases done with very little delay. Here process upgrading was also seen.

#### **INTCSS – 7**

Company felt that the range of products it could do also gave it a competitive edge. One product alone if sold may not yield the required volumes, but a range of color coordinated products when placed or pooled together as a kit or set was key to success. Ability to source products, pool this range of products and enable ease of procurement for the buyer was an order winning characteristic.

#### ***Functional Upgrading***

How did the firm plan to increase value of exportable items? Firm S planned to increase investments in three areas if it needed to survive in the long run.

- a) In development of individual brand or own branding in foreign markets. They were already negotiating with an importer distributor who had agreed to take this up.. They would undertake distribution and were closely associated with design development for their markets.
- b) Second focus was on domestic retail industry. They believed that if capacity was there orders will follow. The firm believed that increasing capacity was important as an all round capacity was required. Not just in stitching and finishing but in all stages. Once facility was maintained it would lead to more orders.

They had confidence that once production, finishing and initial processes were there, without any active marketing efforts, the business would come in. The need was to lower cost and to ensure timely delivery. These were key considerations.

#### **6.4.4 Emergent Codes Identified From Interview Transcripts**

##### **1. Home Textile Industry**

The respondent talked about how home furnishings could be classified. A key issue was the variety that was generated every year. New categories of products were being generated every year.

##### **1) Kitchen Linen**

- a) Dining set (table cloth, place mats, napkins, rings, table runner etc)
- b) Kitchen towels
- c) Gloves or mittens
- d) Aprons
- e) Other made ups related to the kitchen

##### **2) Bed Linen**

- a) Mattress
- b) Fitted sheets
- c) Regular sheets
- d) Quilts
- e) Duvet covers
- f) Pillows
- g) Small pillows
- h) Bed curtains
- i) Mosquito nets
- j) Shams
- k) Pillow covers
- l) Bed spreads



- m) Coverlets
- n) Day pillows

**3) Floor Coverings**

- a) Rugs
- b) Mats
- c) Floor cushions
- d) Pool items
- e) Beach items
- f) Futons

**4) Bathroom Linen**

- a) Towels of different sizes
- b) Bathrobes
- c) Bathmats
- d) Shrink curtains
- e) Shower curtains
- f) Toilet kits
- g) Gender specific items

**2. Buyer Segments/Categories**

**INTCSS – 1**

The firm was catering to the middle price market. The firm was not catering to volume or capacity buyers. This was not strength of the region. The region specialized in different designs, unique products, making innovative uses of products and making new products according to the requirement. Specialized products were a means by which they could justify their costs.

The firm felt that the firm's aim was not to expand into new markets or look for new buyers. This was not a priority as they felt they could always increase their customers. The demand was there for their products. What was more important was to increase their market share by creating new products, new uses

for existing products, finding new uses for the product etc. Constantly surprising customers with new designs was a necessity to survive in this industry.

**Memo:** The firm in question was touted as one of the new age firms by many other cluster members. This became evident in discussion with the CEO of the firm – who expressed a strong emphasis on innovation to remain relevant. This was evident in this conversation. The strong need to diversify into new home category products and increase variety of products was mentioned as a core need of the area – to firms from the region in general.

### **INTCSS-1**

The respondent was of the opinion that low price alone was not a selling point for firms. Other important attributes related to production that firms needed to think of and which were important to buyers were good wages, SA compliance, high technology machines, low or zero rejection rates and prompt delivery and shipment were important aspects to be fulfilled. The respondent was of the opinion that low price alone was no longer a selling point. Other important factory related attributes were

- a) Good wages
- b) SA Compliance
- c) High tech machines
- d) Low/zero rejection.
- e) Prompt/delivery/shipment

### **3. Product Development Related Aspects**

#### **INTCS S – 3**

Discussion started with a question about how new idea developed for the company. How did new product ideas emerge for creating new products? The respondent said ideas were usually developed by buyers mostly. Together with suppliers they examined whether these ideas could be made, taking into

consideration the supplier's ability to deliver fabrics with the specified construction, colours and fasteners. The feasibility of manufacturing the product was decided by both parties. The supplier S undertook sample development only when approval of produces or supplier was there- this decision was not forced upon supplier.

### **INTCSS – 3**

In discussing about how new product development or innovation in products was ensured, the respondent said that one of the many ways in which buyers ensured that suppliers were able to carry out production of the given item or specified item was to partake in this decision process to the fullest extent possible. This was done through buyer visits. The buyers visited the factory and stayed within making sure that their suppliers fully understood what was required of them. These visits were scheduled twice a year. Discussions were held within factory premises. In fact, for purpose of the buyer visit a guest house as well as a showroom of products developed over the years was established. It was developed in a tastefully decorated home premise with the best methods of exhibiting their expertise. This was where discussion took place. In response to question about the kind of products and how many of there were new products the respondent said that:

- a) Sometimes an existing product/earlier product was reordered in a shade or colour change.
- b) Sometimes an entirely new promotion was planned – usually fairs hosted a seasonal promotion with a contribution of products. Buyers may ask about the supplier's ideas and show photos of products they would like developed. Usually decision making about the next seasons products or promotional ranges was done during the buyer visits twice at year. At the point of discussion itself, after rates have been finalized supplier decides whether new product suggestions can be done feasibly.

During the visit of the buyer, the discussions were done in the following areas:

- a) Ideas of both parties are shared
- b) Examining the workability and possible price points of these designs,
- c) Manufacturing costs
- d) Additional costs that needed to be incurred for trims, accessories.
- e) Finalization of production volume and prices that were possible for the supplier
- f) Decision of how much lead time required. Usually two to three weeks was required for first sample presentation.

**Memo1:** The method of order generation is unlike bulk or volume buyers. In these cases, the decision about what to produce and how to choose the required colours and combination is determined from a mood board for a season. The outcome is less definite in terms of output and strong demands are made on the house designer's ability. Since designers must combine colour trends to produce combinations according to the season's colours, chance of acceptance actually less because design development is done by designers themselves. So chances of failure are there.

**Memo 2:** The firm is able to avoid this possible outcome because buyers or their design development staff comes to supplier premises. There was a strong involvement of the buyer because of the risk of supplier failure. This called for more joint discussion and more specific instructions being made. Specific products were developed that the buyer had evinced interest in and product development cost was assessed taking into consideration all cost units. Every aspect of the next season's releases was assessed first before actual product development carried out. The advantage of this was that it saved the cost of unnecessary sampling.

**Memo 3:** The buyer representatives usually went back after two weeks. After two to three weeks of actual sample development, the supplier sends a few options of

product in different colours and design. This is to compare actual with predicted design. These initial products are examined in the buyer premises as designers who come to supplier premises at the earlier stage may not have full decision making powers. On receipt of sample they may have further discussion in their premise and finalize decision. Pricing may be a deciding factor. But the supplier firm S is in an advantageous position because price points are decided in suppliers premise itself. The company is thus able to specify price at initial stage itself.

**Memo 4:** Final decision about what to stock is made by merchandisers of the company as they always decide what the store will stock. They select items that will have better sales. Usually some alternative are selected. Designer's alternatives are usually considered.

#### **INTCSS – 5**

The respondent spoke of how the firm tried to accept a range of buyers from smaller players to bigger multi- national companies. This enabled them to learn new or different trends. It was seen that as size of the order decreased the product type became a higher value product – it involved the manufacture of specialized products that needed accessories like bead work, embroidery, tassel fitting, silk work etc. Small orders were usually associated with designer labels. Minimum quantities of such highly worked products were sold in individual stores or boutiques. Though the final margins obtained through manufacture of such products may be less because of the high labour component, the firm took up such orders. According to the respondent the benefits for the firm were:

- a) Variety of products can be handled- both high and low value products could be taken up as the firm developed competency to handle any kind of order.
- b) Company can attempt to produce or weave other buyers' similarly crafted products by using cost reducing or efficiency improving techniques.

- c) The company became able to produce and handle different fabric and yarn combinations. This also helped in increasing the value of exported products.

#### **4. Production Related Aspects**

##### **INTCSS – 4**

The respondent felt that the company was trying to reduce orders at that time. They were receiving many orders as a result of the emphasis on total solution provision and were taking or choosing only those orders which they could handle comfortably.

**Memo:** The ability to choose and pick orders would not have happened had they remained in the same size as other Kannur players. They had strong emphasis on investment and it had reaped benefits. He felt better investment meant more orders. They could provide better wages to workers and they were better satisfied. In fact the increased scale was only in production. He felt that the firm would have done better if it had not been located in Kannur. This was because, as a trend, it was seen that for many of the finishing process of fabrics like fire retardancy, lamination and chemical coatings – these treatments were located in Tamil Nadu. Places like Erode, Coimbatore had firms that carried out these treatments as a job work, so products had to be transported to Coimbatore, Erode or Salem causing high cost to be incurred. Supporting industries or specialized stockists for industrial requirements of these industries were not established in Kannur, unlike in Karur or Tirupur, which had an entire industry built around the demand for spun cotton. This kind of support was non-existent in Kannur.

##### **INTCSS – 4**

In the present trend management of labour was a key aspect. As investment in machinery increased productivity also had to be increased. The company had set up a state of the art production facility. So productivity had to increase to get the benefit of this facility. It had to be at the highest level. It was beneficial that the Kannur workers were highly quality conscious. Management of labour became

important for the firm because the firm was one of the largest investors in Kannur. It had set a benchmark for production investment and it needed to justify cost of investment by appropriate people management.

**Memo:** What had been the production related aspects of the company that set it apart?

- a) R & D spend was limited. Because of the large investment in production, new product development had not been a focus.
- b) Buyer interacted with supplier in the supplier's premises. This was encouraged by the firm, because the interaction between the two was beneficial. The firm encouraged this. 4-5 times buyers visit the factory so as to be able to interact within our premise.
- c) Weaving made state of the art through the rapier loom
- d) Stitching done with high technology machines. Same machines have multiple use. Variety of products can be made.
- e) Finishing made efficient with equipment installed for variety of finishes and for different volumes of products.
- f) Improved profits have accrued to the firm.
- g) Delivery times have gone down from 90 to 60 days.
- h) ISO was not a key emphasis – but they were trying to ensure system was efficient by an in built firm based governance measure.
- i) Strong emphasis on worker welfare facilities. The firm maintained better wages and followed the government rules for the same.

##### **5. *Increasing Value of Exportable Items***

###### **INTCSS -1**

Respondent was of the opinion that more than the product itself the sum total all those factors that impacted the trade relationship were the ability of

supply firms to often more than just low prices. Low price alone did not make buyer prefer a certain supplier-other factors were related to production: Standards like ethical labour /worker standards or social accountability were important buyers because of the risks they took when taking up suppliers in developing countries.

The respondent felt that a ten to fifteen percent margin is allowed within the retail sector – higher prices could be charged by suppliers if they were able to convince buyers. Buyers needed to be convinced about the benefits of using the supplying firm's infrastructure and organizational capabilities. Having an entire set up of production that was not fragmented and for which standardized production methods were in operation was an advantage that many buyers looked for.

### ***Providing Better Facilities as a Means of Increasing Value***

#### **INTCSS – 1**

The respondent felt that although earlier there was a general feeling that quality was not important in the home furnishing sector, now this was changing. Buyers wanted first class quality and hundred percent perfection and they wanted all this in a facility that was fully fledged with required standards. There was a clear shortage of such complete facilities that were having everything in place.

In Kannur the concept of third party manufacturing which was being done for decades, was becoming less acceptable to buyers. Whatever factories were there were short on infrastructure and scale. Firms in Kannur had not ramped up their scale of production. Scale was becoming very important. Whatever factories were there needed to have infrastructure, promise in time delivery, provide adequate quality and sufficient compliances to existing standards. This meant they needed to invest more. He felt that price wise there was no difference between Kannur and Karur. The difference was that Karur had huge investment sunk into their facility and physical infrastructure. This was why their unit cost was less. But the respondent felt that buyers were moving back from Karur. It was necessary to capitalize on this trend by increased infrastructure investment within the region, improve professional management and promise better quality.



#### **INTCSS – 4**

The respondent was of the opinion that buyer was looking at end product. Focus was on quantity of end products. Buyers now were interested to look at the facility for exporters. Not just at the final product but the ability to provide a set of characteristic. These are features not of the product but of the entire set up of the firm were related to. This ability to work under a single facility was an important part of this

- a) An all in one facility
- b) Sampling speed and development
- c) Product development
- d) Promises of a total solution – Instead of taking care of only one part of the export to provide an entire sourcing point. A total sourcing experience. This was a key benefit that buyers looked for.

**Memo1:** How was the firm trying to do this? One way was to look at changes in the sampling of product. Sampling was now done very fast for meeting buyer's approval. Providing new samples with fast changes was done with little delay. This had made the respondent quite able to respond to buyers needs very rapidly. How had the company tried to provide this facility?

- a) Good sample development with best staff and techniques.
- b) Presented well to buyers.
- c) Good quality (continuously try up to improve quality).
- d) On time.

Respondent was of the opinion that if four factors were there, the factor of price would not be an issue. Even if price was slightly higher buyers more willing to buy - if sourcing companies could offer a complete and integrated set of solutions - A solutions provider - this was the new focus. The firm was trying to give a complete sourcing experience.

**Memo2:** At that point the company was trying to reduce the number of orders because of their emphasis on total solutions provision and were taking or choosing orders they could comfortably handle. The ability of choosing order happened because of firms increased emphasis on investment. They felt that better wages to workers was possible because of the larger scale they could take up because of the facility. They felt between its closest competitor Karur and Kannur the difference was only aspects like the large scale and the emphasis on quality. Regarding the quality consciousness of the region, it was better than Karur.

### **Weaknesses of the region**

The drawback was that the region lacked integration; a solution based approach was missing. Any of the activities or processes required for finishing or treatments and many materials required on a large scale like accessories were available only in Tamil Nadu. It was dominated by requirements of Tirupur, Erode, Coimbatore and other textile industrial areas so that total efficiency of these regions had gone up. This supporting infrastructure was totally absent from Kannur.

## **6. *Infrastructure Related Issues***

### **INTCSS – 7**

Value was a function of how much of labor had gone into making the product. The respondent felt Kannur was a cluster whose strength lay in producing high value or high category products. Small batch or limited size production meant that they had facilities for high quality finishing and packing. It was better for them to produce high value to sustain factory as they did not have scales that low volume mass production entailed. Being able to produce a range of products gave the firm a competitive edge. One product alone may not be well sold but having range of colour coordinated items placed or pooled together as kit or set, was important to success. Ability to source, produce or pool these range of products and to ensure uniform quality and finish was a key need. Value also increased as labour component increased. As the difficulty in products increased, wages also increased. Added to these are the general raw material costs of yarn, chemicals and dyes increasing every year.

### **INTCSS – 8**

Some of the high value treatments carried out on fabrics to increase its value / or change its finish is zero zero finishing - Preshrinking machines reduce shrinkage to zero. Chemical additives are also used to increase the values that change the nature of the product by chemical reactions. Processes like softening, fire redundancy and water repellence come under this category.

### **INTCSS – 10**

The firm had tried to improve those areas that were weaknesses for firms in Kannur. Earlier the region was known for yarn production and dyeing but these areas had become weaknesses. Processes were related to production of fabric, volume of raw materials etc. These had become weaknesses to firm because:

- a) Raw materials cost was increasing
- b) Cost of labour was going up
- c) Requirement of handlooms were less.
- d) Wages and other costs were rising
- e) Migrations of skilled weavers were becoming a threat.
- f) Large batch production requirement less
- g) Variability of orders high

The firm tried to overcome these drawbacks by the following infrastructure related and organizational improvements:

- a) Finishing of fabric and made ups made excellent.
- b) Processes to create final products, made ups – done with expertise
- c) Work organization skills increased.
- d) Sourcing and production planning improved
- e) Ability to deliver higher value and smaller batches of product
- f) Quality levels higher

## 7. *Second Tier Producers – Cooperatives*

### INTCSS-2

In response to a question about the contribution of societies to production, the respondent said that at that time very little was being passed down to cooperatives.

The reason for the inability to use cooperative in the earlier scale that they used to was because of a twofold reason:

- a) Qualified weavers with cooperative were being lost to other trades because of the low wages – wages were low compared to wages given to casual labourers, construction workers etc.
- b) Those who remained as weavers preferred to do mat weaving. This was with less width, was easier to do and with same wages as running traditional looms. In most private sector handloom was being phased out. Very few factories used traditional looms on a regular basis. Ten to twenty loom factories were being maintained for tradition's sake. Early factories had sixty to eighty looms but now only ten to twenty of them were being maintained. Factories were using less of their looms and getting production done at cheaper power loom based production in Kannur or in Tamil Nadu as job works.

Kannur was successful for a long time because of the buyer's requirement of handloom products. This was to avail of the duty exemption they received for import of hand worked products. Quotas could be filled with handloom products. But after the MFA this benefit was lost. There was no distinction between handloom and power loom, though in the work done there was much more effort in handloom weaving.

### INTCSS – 3

While discussing role of weaving cooperatives and their fall in importance to the export sector as a whole, the respondent felt it was inevitable as buyers did

not specify 'handloom' finish. A need was for good quality and lesser price. The reason why cooperatives- though more expensive than individual looms- were still given orders, was because of a sentimental linkage: theirs was a social relationship that had lasted decades. This was happening though the measure of quality of cooperatives was going down. Productivity was less and cost high. Besides, maintaining a relationship with cooperative in some small measure was beneficial because of the heightened interest in worker welfare and social accountability status of firms. In reality, buyers were not concerned about the workers' condition of work- concern was directed towards the negative press coverage that would impact their firm. So a welfare angle was always beneficial to the firm through the provision of minimum wages, PF, ESI benefits etc.

#### **INTCSS- 5**

Earlier the firm was giving work to twenty or twenty five societies. Now that number had fallen to five. It was a fact that cooperatives were also not making any profit or was making much less than their peak years – before the MFA (Multifiber Agreement) when handloom products were in demand.

But these firms still operated because of financial support of the government. The firms were strongly supported by government rebates, festival rebates, and purchase price reductions when yarn purchased from Government depots like NHDC (National Handloom Development Cooperation, government purchase of handloom orders etc.

The company's orders to cooperatives gradually reduced when:

- a) They established their own power loom to meet the needs of bulk or volume buyers who needed fair or lower prices.
- b) Cottage industry type power looms with one to two looms in households also gained popularity as exporters demand for handloom fell. By using local power loom twenty percent more profit could be generated by them.

- c) However cooperative were still being used in part because of the social networks between firms and the societies. The extent and length of their relation went back for decades. The firm S had decided to slowly phase out cooperatives from their production plan. This was due to
- Price difference between power loom and hand loom production.
  - Quality differences: quality standards were going down because qualified weavers were migrating to other jobs due to lack of continuous work in co-operatives.

#### **INTCSS – 5**

The respondent felt that cooperatives had played a significant role by providing the ‘variability’ element that was a key requirement of this industry. He spoke of the need to maintain their design skills as well. This was being lost due to skilled weavers going to other trades.

**Memo:** The weaving communities were a group of well talented artisans who had contributed significantly to the industry. They had given the greatest support especially in the initial stage when different smaller orders, with high degree of variation between orders used to be handled with ease because different orders were taken up by different individuals/cooperatives. This has been a great benefit to the sector because of the immense variability that the region could generate.

While it was true that the skills of these weavers were remarkable in terms of the weaving quality, finish and expertise in their chosen art, what was being lost out was a generation of skilled crafts men who had, in their prime, depended on handloom weaving as a source of revenue and in the process had been able to come out with exclusive and intricate weaves with high difficulty levels. This ability was a source of rent providing high barriers to entry at that time since weavers from other regions had never tried to undertake weaving in different areas. It was a skill born of the habit being ingrained in the very livelihoods of these individuals. This was a skill that could not come easily through learning the trade alone.

Because of these reasons the respondent felt that weaver members needed to be supported by government and schemes as well. This was beneficial to companies too.

## **8. Handloom Specific Factors**

### **INTCS S-1**

The meeting started with an observation that handloom was the method of production that was the only source of fabric for many years till mechanization stepped in. The handloom products lost market because its cost of production was not viable. This was the reason behind the non profitability of the handloom cooperative sector. Earlier cooperatives were the main source of production especially when large scale production used to be taken up by exporters in the Kannur area. But the cooperatives as a preferred source of production became less popular in the 90s – especially in the later 90s when cost of production became important to buyers. Related to this was the handloom quota that was in vogue. Handloom products in the pre MFA era buyers received duty exemption on the import of hand woven products. They had quotas for hand woven products and preferred this to be filled with genuine handloom products. This equation changed in the run up to 2005 starting in the late 1990s

**Memo:** This emphasis on handloom was lost completely at the end of the MFA. Even before the end of quotas, buyers began to emphasize the need for price competitiveness. The need for prices of fabrics to fall became predominant. This spelled, in effect the end of the handloom export industry – that production of goods that were produced by weaver’s societies – which, in Kannur formed a significant source of production.

In fact whatever production done now by cooperatives is only a fraction of what used to be done. In short the production was maintained at least partially by the linkages and social relationships that they had with export firms in the past.

### **INTCSS-1**

The respondent said that though earlier handloom cooperatives were major sources of production currently they were carrying out limited production at rates not financially viable for themselves. This meant that cooperatives were taking up production even if it meant carrying it out at rates not financially viable. The buyers there were not getting remunerated for high cost of handloom. But in many cases, the cooperatives took up production to maintain the facility or to give work to weavers and sustain their society. They could do this by relying on government aid to survive. The government support at state and central level was designed to help these cooperatives overcome knowledge and skill shortages - as well as to give support in marketing and development, marketing promotion and design development. Worker related support schemes in the form of insurance provision, ESI, bonus, DA increase; basic wage increase was also in vogue for decades.

The respondent felt that the cooperative sector was feeding off this support, it was increasing their complacency. He felt that only when it became a survival issue would this mind set change - cooperatives had been so long supported by government that they could not even enlist as firms outside of this. Once the support stopped survival would become an issue – and they might become better managed. Though the handloom product was artistic and bore testimony to craft and design, innovativeness was called for. To be innovative - not only meant new designs but more difficult and intricate designs – demanded more from weavers. It also meant putting fabric to different uses – more home related uses etc. This was what was lacking. This need to actively search for more creative ways to use or fashion fabrics was absent. A strong need to modernize some of the pre loom processes itself should have resulted in a partial mechanization of time consuming pre weaving processes like thread winding and manual vat dyeing. Due to the government support – this need was not pursued.



## **9. Cluster Weaknesses**

How was the Cluster failing in its potential?

- a) First difference was the role of government. A comparison of the role of the government in promoting exports puts this into perspective. In both states the role of the government was very different. In Tamil Nadu government has always played a greater role in building infrastructure, increasing employment opportunities and providing necessities like power and water. Increasing number of people was made interested in business by giving incentives to entrepreneurs. This has been ongoing and continuous. The role of industry associations in Tirupur who worked in tandem with government is clear in the establishment of many infrastructure facilities built with private public partnership.
- b) In Kannur region of Kerala the government has taken a backseat instead – despite the foreign exchange generated by the area, a clear indication of encouragement at state level was not there despite maximum exports of textiles being generated from there. Rather the cooperative societies - linked to the vote requirement or political gains as well as socialistic under currents guiding government philosophy, have been given maximum incentives and support but have failed to become active exporters except in two or three instances despite a slew of measures.

The state government has failed to acknowledge the region's contribution to the exchequer, and few government generated schemes have been passed without being pushed through by the private associations of the cluster, and using central government ministry funds and allowances.

- c) A case in point is the integrated texture park at Nadukani. This was initiated in 2005 through a central scheme. Approval was withheld by the state government. It was in 2010 that the Park was commissioned.

In this facility, only land will be provided. The electricity, water, effluent treatment plant, these would not be provided.

- d) In the case of Tamil Nadu the immediate requirements were first cleared for electricity. Only after that payment issues resolved. In Kerala Government sanction required before any kind of working. A working capital loss is incurred.
- e) Delay is continuous and all pervading. Building rules inspections, sanctioning of premises and specific structures etc itself take months. This must be pushed through by bribes; all the while procured or built up plant/machinery must remain idle and great loss is incurred this way.
- f) Related to this were wage and labour rules. ESI rules and standing orders required factories to record all workers as full time even new workers. So their costs of learning and training had to be suffered by firm.
- g) Up to fifteen government departments had to be appeased. Regulations or certifications (state based) needed to be annually renewed. Funds needed to be set aside first for this.
- h) Workers availability was falling drastically. It was a key factor affecting the area mainly for entry level workers - job workers or contract labour had high turnover.
- i) The work ethic was better in Tamil Nadu where entire families took up production families in business. Now – more women and older workers remained in the trade. Young workers moved to other jobs. Serious scarcity of labourers was there.

#### **10. *Effect of Historical Linkages***

##### **INTCS S-4**

The respondent was of the opinion that traditionally firms in Kannur have hesitated to go in for large scale manufacturing. They have not jumped into the bandwagon of technology upgradation that firms in Tamil Nadu had done. The

input scale of manufacturing for firms in Kannur had always been limited. Volume based production had never been its forte. At the beginning stages of the industry, large factory areas with 400 -500 looms was the norm with huge workforce and a large number of weavers operating the looms. This was the rationale behind the establishment of firms like COMTRUST. (The Commonwealth Trust Weaving Establishment) and firm M. They had acquired Samuel Aaron's weaving factory at Kolapuram. This was done in the belief that setting up of a huge weaving infrastructure and facility would enable the volume of production to go up.

**Memo:** As operating costs started to rise due to wages increase, it became uneconomical to run such large establishments. The welfare costs and wage costs also went up as government regulations regarding the same increased. This made the costs of fabric production much higher. Though cost of fabric was higher, dependable quality of production became an issue in such large establishments.

Earlier fabric was sold as furnishing fabric rolls. This meant that the quality of weaving had to be very good and colour matching needed to be hundred percent, but as the years passed, a greater need towards made up articles was seen. In this case fabric was cut up into shapes and sewn, stuffed or sealed with excellent finish and specific treatments, to suit purpose of the products. It began to gain importance. These articles also needed to have tags or labels of the companies or retail outlets where they were sold. This need became untenable with the large work shed based factory setting. This necessitated more labour for finishing activities like cutting, trimming, finishing etc. Work requirement for each item also went up. The fabric could be sourced elsewhere but selling strength was in the finished product.

## **INTCS S5**

The respondent went on to describe the history of the organization. It was in 1960 that the beginning was established with the father of the CEO starting the firm. He was a trader in handlooms. He sent products to Delhi or Bombay. He had the status of an agent who got the work done in cooperatives. The orders were

done in cooperatives after designs were approved and colour combinations developed by him.

In 1985, the present CEO joined his father as manager. Exports started that year. 2-3 shipments an year were done. The help for this was through the HEPC (Handloom Export Promotion Council) and TPOs (Trade Promotion Offices) of the government of India. It was through a continuous trial and error method that buyer relationships were built up, winning their trust. It was in that year, 1985, that the Japanese buyer was first contacted, with whom they still have a winning relationship, and who, in the initial stages was responsible for incorporating TQM practices and layout management in their factory.

In 1989 magnitude of export increased. Fair participation started. Samples were developed by the firm and shown at the fairs. The Japanese buyer became a mentor, who provided strong direction within the firm.

In 1993, the firm bought its own dye house. This enabled the yarn to be uniformly dyed, when they otherwise had problems of difference in colour matching in different batches. In 1994, however the management of the family concern changed, in that the proprietor decided to go out on his own, and this prompted a huge outflow of funds. He decided to take up the path of further investment to build the company and this was not a direction that was approved of fully by the earlier management.

In 1994, when this split happened the biggest players in the region were firms like Dhanalakshmi, Swadeshi and Mascot. The firm wanted to reach that scale, and heavily invested in building their own set up in weaving and dyeing. They were supported readily by banks for loans and further investment requirements. The reason why the firm wanted to develop its own weaving facility was the excessive reliance on cooperative societies and the stitching units which were located in different places, in and around the region. The tailoring and made up finishing was previously done in job works. The absence of dye house proved

to be the weak link because different cooperatives had different dyeing. Colour matching was a serious issue.

### **Divergent production needs**

It was during this time that bulk orders began to come in. high volume requirements with less margin, called for different strengths. Two sets of buyers that the firm catered to were:

- a) High end buyers: the products for this group were given to the cooperatives
- b) Pricewise low end buyers: given to power looms within the cluster.

Karur based production for lower price points was not considered as an option as the firm did not prefer it. This was used also for the requirement of special fabrics like voiles.

The use of Kannur based power looms came in at this juncture when prices needed to be reduced, as cooperatives had higher prices. According to the respondent, this was organized as a cottage industry in Kannur where most houses had an attached loom shed and 2-3 or 4-5 power looms. It evolved as a method of production when handloom production in Kannur became cost restrictive and exporters could not source from the handloom establishments. Many weavers started powerloom manufacturing as an option to provide exporters with affordable production. The benefits of powerloom were

- a) Increase in the output.
- b) Pricewise, it was one-third of cooperative fabric price and the quality was good.

Another issue that caused the firm to increase its own in house fabric finishing was the reliance on stitching units for made up production. In 1996 labour shortages and quality issues came up. The firm decided to start its own production in house by buying stitching units. Twenty three sewing machines were bought as a first step towards this.

### **INTCS S-9**

The respondent started out by answering the query as to when had been a beneficial time economically for firms in Kannur. 1970-77 was the time when 'crepe' was a new fabric developed from Kannur, which became popular. In 1980 the popularity had fallen, but by then many factories had invested in excess capacity and demand had fallen. 1980-1990 was a dull period. Many factories with more than five hundred workers closed. Many of these factories were centered on the Chirakkal region, one of the centers of weaving. Some of the big players which were affected were Rajarajeshwari Weaving Works, Excelsior, Swadeshi Textiles and Great Indian Textiles.

### **INTCS S-10**

The respondent went on to describe the nature of the industry. Earlier, large exporters and big business establishments had the entire infrastructure located within their factory or weaving sheds. Dye houses were also maintained. This presently was adding little value as few buyers could afford handloom prices. So these facilities were mostly lying defunct. In the same way many factories had inbuilt dyeing infrastructure of the VAT or wet dye process with the large boilers, the vats where manually the yarn was turned and rolled in the dye and the drying was manually done, sundried and turned at regular intervals.

The water usage was very high for VAT dyes and this slowly began to become a limiting factor. The government stipulated water treatment requirements necessitated the use of the RO equipment (reverse osmosis). A high investment was required, and few firms could afford this. More companies were outsourcing dyeing to common or shared facilities so that this activity was done with less cost and overheads.

### **INTCS S-9**

The trend, he felt was that firms were trying to build an all round facility in a more mechanized way, to increase the scale of operations. This was a reversal of

earlier trends where the move was towards specialisation in specific functions or activities. Within the district the situation was

- a) Yarn manufacture: This was no longer done. There were few spinning mills or manufacturing facilities within Kannur.
- b) Dyeing: In house dyeing was becoming less. The dyeing facility was kept only for dyeing samples. Only twenty percent of firms were doing fabric dyeing in Kannur. The rest was done in Erode, Coimbatore, Salem and Tirupur. One major reason for this was that the VAT dyes or wet dye process could not be done for bulk products, and the manual labour component was high.
- c) Manufacturing out of Kannur: another fact was that the actual manufacturing of fabric in the region was less. Only fifty percent of manufacturing was carried out here. What was being done is that much of fabric were being sourced from Karur, Erode and Salem and finished at the region. Finishing of the made ups is a high value added process and it was becoming an important activity requiring technical skill and high value equipments so that it was being done in greater volume by firms in Kannur.

#### **6.4.5 Inferences from Individual Case Analysis of Firm S**

##### **1. Firm Rents**

###### **Technology**

The firm was technologically superior especially in processing & finishing. Capital intensive technology was used. The investment in the imported rapier loom required that the firm take up large volume production to utilize it to its maximum. This was yet to happen, as characteristic of the region, the orders were smaller, more variable and in shorter product cycles. The firm was trying to utilize this advantage better by taking up increased scale of manufacturing. They were planning to do this by entering into an OBM strategy. Coming out with a company based brand was a strategy that could

utilize the high production capacity provided the marketability was ensured. An association with a long time buyer enabled strong relational rents up the chain, which was being utilised for design development and for an initial marketing push. At a later stage the firm planned to enter into the Indian retail market. Another source of rent was the extended range of finishing equipment to enable high customization in product and volumes. It also enabled quick sample development and variable volumes of individually processed and finished batches of products. Speed to market was a benefit that the firm hoped would be a significant source of rent.

**Human Resources as a source of rent:**

Rents in HR were directed towards team work being possible. Decision making involved all personnel. Opinion sharing was allowed.

In key product areas like dyed yarn department, dyed yarn issue, fabric department, stitching and packing and dispatch, specific personnel were in charge to ensure accountability. Quality inspection was another key function. The delivery of products was taken care of by another set of individuals. For important buyers a different method of order handling was taken up. Their orders were handled by group of personnel drawn from all five departments. Four supervisors were allocated to 3-4 key buyers. For other buyers, two groups of personnel were provided, one person dealt with the day today activities. The other person would be available to key buyers who visited the premises from time to time. They were the more experienced personnel.

The recruitment of staff was usually from unskilled workforce having basic educational qualifications. Three months of training was provided before they were given specific roles. Attrition was a continuous and common problem. Steadily, side by side existing staff new junior workers were trained to take up responsibility. Qualified personnel were taken up for higher level technical staff training in merchandising, quality management,



job rotation, technical aspects of the fabric. The production side activities were managed by them. Despite the professionals having a four year training program emphasis was on fashion designing and dyeing.

There was a belief that success of the firm was based on the strength of customer handling. The core team consisted of the family members of the buyer who had an ongoing and continuous contact with buyers. They managed the operations and ensured guests were satisfied. In this regard the human resources in the firm was a significant source of rent.

### **Marketing**

Active marketing not priority, high demand from existing buyers as they could cater to high volume requirements. The company at that time felt they had enough orders and were in a position to bargain for better terms. They felt that this was because of their active thrust towards increased investment and increased scale of operations. They felt that the provision of a facility that gave buyers the freedom to choose samples or examine samples and experiment with different yarn and finishing combinations to get the right costing for the product was an advantage that few could refuse. 10% of turnover towards sample development and sample production

### **Organization of Work**

Post weaving operations streamlined. Staff allocated to tasks. Buyer stays on premise for sampling. Sample development process rapid, Sample generation facilities in house. Within firm and cluster based production. There was the use of cooperatives and local power-looms. It was a significant source of rent.

### **R&D as a Source of Rent**

As in other case firms the activity of sampling and sample development commands the greatest importance. The ability to innovate in design seems to be a necessity in the home textile industry, which is as fickle as the fashion industry. Every season new changes or colours were introduced set

by the 'mood' of the season. By providing a all in one factory environment and convenience to the buyers' staff to engage the factory in design development, and by ensuring the processes by which products could be quickly finished and checked for quality problems, cost etc, the firm had a significant source of rent in its facility. R & D as an activity undertaken by firm itself was not taken up on its own. It felt that it needed to build up its design strengths and undertake its own design development. This had not been actively taken up by the firm. The facility for design and new product development was a source of rent.

## 2. Resource Based Rents

- a) Production in Kannur specialized in high quality but low volume. Over the decades production was done in such a way that smaller volumes of product was produced and between batches of products the variability was high. The high design variability and frequent and small batches of production was a feature of the region. Quality consciousness was also high.
- b) Process of weaving was highly extended. Eight hour boiling process in sodium hydroxide wash helped to soften the fibres and increased their absorbency of dyes and colour fastness.
- c) Soft water was a feature of the region. It was another reason for the quality of dyeing. The dyes were better absorbed and had better tones because of this. But this was becoming scarce and the quality of water was coming down.

Importance of these attributes appeared to be lessening because:

- a) Stringent environmental constraints were being faced by the industry. They were required to set up reverse osmosis plants in their factory set up in order to carry out dyeing in their own premises. This was a huge expense that many firms could not afford. As a result they were opting

for carrying out dyeing as a job work in dye houses which were based in Tamil Nadu. These firms took on dyeing requirements for a number of companies and had the scale and infrastructure to deal with both small and large volumes as the requirement was there.

- b) Many firms used specialized dye houses in Coimbatore. They took up the task of dyeing at cheaper rates than if done in house.
- c) Quality of the end product was ensured by quality control supervisors of the firm who travelled to Coimbatore twice weekly to check on the completion and colour matching.

### **3. Relational Rents**

- a) Buyers invest time and money in improving supplier capabilities as seen in the annual visits of extended duration. This was to plan a season's full release. Organizational learning generated through interaction and joint product development.
- b) In early 1990s firm benefited greatly from association with a Japanese buyer. A quality management system was developed on TQM principles and this was incorporated into the factory structure by staying on factory premise for six months.
- c) It was notable that the factory layout and process flow was changed so that the firm benefited. It was possible to apply these changes so that all products of the firm benefited. The buyers' contribution at that time was for the betterment of the entire factory and not just their own product range.
- d) Earlier the firm used to work with 20-25 societies, but this had fallen to five. The key reason was that very few buyers specified hand woven textiles any more. Firm used within cluster power looms, which were home run establishments was having 1-2 looms as more profit could be generated.

- e) Decision of firm to enter own brand manufacturing based on firm's link with one of the large business groups in Germany, who was at the level of an importer distributor, offering financial and marketing advice was possible only because of the relational rents.

The relational or chain based interactions were a significant source of rent.

#### **4. Exogenous Rents**

The firm had used many government schemes for exporters. A few mentioned were DA, DP, LC , import of capital goods schemes, duty free import was used because of the export surplus that firm had achieved in a particular year.

The state government based government support was not sufficient. It was directed towards the handloom sector. The forty crore integrated textile park was first rejected by state government but then the exporters association of the region, the KTEO pursued this need at the central level, and by their efforts it was approved as a private public partnership, where the Central government would provide twenty crore, and the state government contributed twenty crore. Here as a private public partnership, the private exporters would contribute ten crore and the state government ten crore.

#### **Depletion of Rents**

A number of reasons contributed to the reduction of the sources of rent. They were losing significance so that the industry was becoming more difficult to sustain. The reasons were

- a) Lack of integration: equipment and support industries for the sector absent so they needed to source many products from Tamil Nadu, and processes also, greatly increasing cost.
- b) Efficiency went down and cost of producing went up, increasing the number of milk runs because a number of value adding treatments was done out of the cluster.
- c) The state government support of the industry poor.

## **5. Governance**

### **Legislative Governance**

- a) Quality certification DNV ISO 9001 approved auditing. SA8000 equivalent standards audited by the Textiles Committee, for buyer specific needs. Japanese buyers require GIS standards
- b) Firm specific quality standards largely followed government specifications for workers and factory and wage regulations. Audited through own departments or Textiles Committee auditors.
- c) Firms own product based regulations specific as per buyer instructions and implemented by quality control staff. With secondary suppliers like power looms and cooperatives, strong governance was exerted. Company specifications or buyer specific needs were used as the basis for exerting governance down the chain.
- d) Product related standards were:
  - British retail standards for fire retardancy
  - Dyeing standards –AZO free dyes or chemicals
  - Reach standards for EU based buyers
- e) Government rules needed to be followed regarding wasges, DA to workers, allowances, PF.

### **Executive Governance**

- a) Though buyers were intensively involved in product development and were actively involved in each stage, quality enforcement and standards to be followed were left to supplier. Not much consideration of the costs that the supplier incurred in maintaining standards. The prices that suppliers got did not fully incorporate the costs that were borne to maintain these standards.
- b) Cluster based agencies like the Textiles Committee aided in providing classes to ensure that the staff members of the organization could

maintain these standards. Some firms use agents to make checks against standards.

### **Judicial Governance**

Bigger buyers had stronger judicial governance needs

- a) Buyers or representatives may come unannounced to check overtime records, attendance registers, wages, benefits etc without prior knowledge. Stringent checking was done. This is increasingly becoming the norm.
- b) Use of laboratories nominated by buyers like SGS, Intertech, sample testing for buyer, before order confirmation.
- c) Online inspection at supplier site. Buyer specifies minimum order quantity for this. Physical inspection by buyers own team.
- d) Physical inspection by nominated agencies. These may be the TC,BVQI or SGS at end of production process.
- e) Use of buyer's agent. This is done in the case of some buyers. They carry out inspection at three intervals.
  - To check order processing- the timing and sequence of the order.
  - Middle line inspection to check production line, the stitching and scheduling of activities.
  - Final inspection before dispatch.
- f) Use of buyer nominated shipping agencies- this was a new form of governance that was being exerted by buyers.

### **Upgrading**

#### **1. Process Related**

##### **Within links or within firm**

In 1985 the focus of firm was to be a good exporter. By late 2000 it had evolved towards greater value generation. For this the firm had invested heavily in

capacity building and had production and finishing set up to cater to higher demand. A high end rapier powerloom was imported and set up at a different location within the cluster.

- a) A range of finishing equipments was set up by the firm to enable product differentiation and value generation through increased scale. This was especially suited for the made up categories.
- b) The firm's future plan was to set up a full-fledged dyeing facility that would complement the large scale power loom production of the firm.

**Between links:**

- a) Need to focus on activities that would capitalize on the heavy investments undertaken by the firm. This led to an own brand manufacturing strategy- a first for the region.
- b) The link with a well established buyer at the level of importer distributor was instrumental for moving towards an 'own branding strategy'. As the buyer had links with a retail chain in Germany the aim was to utilize this link to set up distribution in Germany first, through the retail chain and then to expand to the other EU Countries.
- c) High value treatments on fabrics were done to increase its value. Zero-zero finishing, chemical additives like softening, fire retardancy etc were done at out of state locations.
- d) Buyers remain on factory site for week long visits. This was done to increase
  - Clarity of what the buying firm expected in terms of product construction, quality and technical features. Buyer on site increased the chances of products being passed by final merchandisers in buyer premises.
  - Codification of design. Buyer's interaction with middle level staff, supervisors and merchandisers.

- Greater investment in supplier capabilities manifested by number and duration of visits.

## 2. *Product Related Improvements/Innovations*

### **Within link/firm**

- a) Firm relied on personal contacts in buyer markets for new designs, colours and seasonal trends
- b) Use of buyers presence in the factory site for extended periods enabled development of new product, seasonal releases and promotional items
- c) Plan to enter into own brand manufacture spurned by large production capacity and finishing equipment investment.
- d) Brand development to fulfill an unmet need of home textile shoppers.  
– Customized dressing up of rooms- meeting both textile needs and products for lifestyle and furnishing requirement. This was an emerging product class.
- e) Focus on increased range of products. Enabled through a variety of finishes. Focus on select groups of products. This was suitable for different needs of the home.

### **Between Links**

- a) Use of smaller number of cooperatives to carry out conversion of yarn to fabric.
- b) Use of within cluster power looms, smaller family run looms which carried out fabric conversion with good quality and productivity. It had a more acceptable price than cooperatives
- c) Use of specialized facility for specific fabric finishes. Use of Tamil Nadu based firm for finishing.



**3. *Changing Mix of Activities***

- a) The firm took up continuous reorder for one or two older buyers. This was done by access to their inventory levels on a continuous basis or weekly basis. Staggered orders were set.
- b) Use of specialized logistic firms
- c) Taking more complicated and labour intensive products.
- d) Taking up larger volumes of product.

**Moving Into New Value Chains**

Individual branding and distribution agreements overseas: This was a direction the firm intended to take.

## 6.5 Cross Case Analysis of Strand I of Study

### 6.5.1 Data Array of Firm Rents

#### 6.5.1.1 Technology rents

Table 6.4: Data Array of Firm Rents - Technology rents

FIRM H	FIRM M	FIIRM S	CROSS CASE INFERENCES
<p>60% of customers insisted on handloom origin. 40% on value. (H2)</p> <p>ICT linkages strong with buyers. Product planning software enabled contact at all levels of staff. (H2)</p> <p>Firm did away with in house weaving in 1990s- strong dependence on cooperative societies since then. (H4)</p> <p>Cabinet Dyeing machinery in place for uniform colour matching. Stitching units for made ups in 4 locations</p> <p>Firm had a cabinet dyeing machine to enable large batch</p>	<p>Recent modernization had not been done. Technology up gradation was not significant. This was in comparison to other T&amp;C clusters like Karur, Tirupur. (M3)</p> <p>Latest up gradation for firm was in 2000. Equipment taken up were</p> <ol style="list-style-type: none"> <li>1. Needle detector machine</li> <li>2. Cutting machines</li> <li>3. Stitching machines.</li> <li>4. Peroxide bleaching instead of region specific caustic soda bleach process.</li> <li>5. Kier drying instead of air drying. Useful in monsoon</li> </ol>	<p>Technologically the firm was one of the most superior in the region. It had huge investments in infrastructure (weaving) and in finishing processes or activities.</p> <p>This gave them the ability to increase the volume of production and the end product look and finish- key aspects which increased the value of the final products. The investment in finishing equipment was such that it was able to provide final products that would meet the demands of a wide range of customers in large scale if required or smaller.</p> <p>It was done to enable firm to</p>	<p>Firm H did not emphasis technical strength in manufacturing primarily because key buyer's USP was 'handmade' (<a href="http://www.malabar.net">www.malabar.net</a>).</p> <p>Link goes back to 1984.Lack of technology not a weakness as firm sold to buyers who sourced low volume, high variability, and high quality and finish. (H7)</p> <p>Cooperative links are a strength to this segment - the draw of labour standards, equitable worker oriented policies and social accountability has been an aspect that attracted developed country buyers to quasi governmental establishments like cooperatives which otherwise have been spurned by traditional markets for lack of marketing orientation (Tewari, 2000).</p>

<p>dyeing and uniform dyes before yarn distributed for weaving.</p> <p>Change in dyeing method meant loss of a resource based benefit, but savings on dyes, costs, water loss etc (H2)</p>	<p>weather. (M3)</p> <p>Post process activity like water resistance treatments, laminates, fire retardancy done in Coimbatore as a job work.(M3)</p> <p>Technological improvements if any seen in pre weaving processes which were highly dependent on labour, and dependent on season. Not recently done. Last done in 1995.</p> <p>Firm bought one of the largest handloom factories of the time in 1988, which increased its loom density. Also increased its fixed cost. (M3)</p> <p>Pre weaving improvements in mechanization of labour intensive processes done through establishing</p> <ol style="list-style-type: none"> <li>Pern winding machines</li> <li>Bobbin winding machines</li> <li>Roller dyeing machine (M4)</li> </ol>	<p>scale up its delivery of made ups if they were required to deliver in larger quantities. (S7)</p> <p>This was a source of rent for the firm that they were still in the process of capitalizing upon. (S7)</p> <ol style="list-style-type: none"> <li>High production capacity needed to be utilized to be a source of rent for the firm. It needed to produce in much more volume than it was presently producing. (S10)</li> <li>Since the region dealt with a high degree of variability- in size, type and period of orders, the firm was forced to continue to cater to these specifics as required by customers.</li> <li>The drawback was that as the firm had heavily invested in large scale, it would get the benefit of this only if it invested in large volumes. Only large volumes would justify</li> </ol>	<p>Resource based dyeing practices were replaced by cabinet dyeing to ensure colour uniformity. In house weaving was no longer resorted to as it became difficult to sustain. (H4)</p> <p>Firm M had few recent technical up gradation practices. Yet this was not counted as a reason for not getting buyers, or source of dissatisfaction among existing buyers. (M3)</p> <p>Use of out of cluster value adding activities seen (M3)</p> <p>Firm M had one of the largest handloom infrastructures in the district, that had not been phased out, partially because of dependence of weaver workforce, and resistance of the trade union, and also because workers were mostly long term and heavily dependent for livelihoods on firm M. (M3)</p> <p>Firm M relied on within cluster power looms for lowering production cost of handlooms. It was attractive because of better control of quality enabled by being within the cluster, and good</p>
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	<p>investment in such scale. (S 10)</p> <p>4. Presently high product capacity not being sufficiently utilized.</p> <p>5. This led to the realization that large scale production and finishing was not enough. It would have to have capacity at all stages- dyeing, weaving and supplies. Backward integration needed to be done to make use of large production and finishing facility. (S 10).</p> <p>A way to do this was to engage in own branding, or to produce for established brands, in large volumes.</p>	<p>quality, and acceptable price.</p> <p>Firm S was one of the technologically superior firms with huge investment in finishing and weaving equipment. A source of rent, the firm wished to differentiate itself by technology inputs and value addition to made ups. (S7)</p> <p>Technology enabled quick sample development- a key source of rent in the industry- was made possible by this infrastructure. On site buyer involvement in sampling, facilities to enable combined work with buyer staff, and prolonged discussion and negotiation in supplier's premise. This had a role in giving them an edge in bargaining for better prices and conditions.(S7)</p>
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6.5.1.2 Human Resources

Table 6.5: Data Array of Firm Rents – Human Resources

FIRM H	FIRM M	FIRM S	CROSS CASE INFERENCES
<p>Human resource at middle level management strong, loyal (10-15 years), knowledge of high product quality. All ISO certified, with SA 8000 standards-they deal directly with buyers and know their need.(H2)</p> <p>SA standards require management to aid unionization within firm. But firm has no unions, only worker representatives. Politicization of unions has not happened- a testimony to company –worker relations (H2)</p> <p>Relation between management and staff very good. Evaluated on yearly basis (SA 8000 standards requirement). Non hierarchical. Free and fair</p>	<p>Worker relations very strong with firm. Most workers with firm for years. Also many weavers within firm from the time of first proprietor. This made streamlining of operations by trimming workforce or increasing their productivity a difficult task.</p> <p>An emotional linkage to workforce members and a social embeddedness with respect to firm staff was there .(M4)</p> <p>Most of the operations taken care of by a five member team. They were responsible for coordinating and directing activities of lower linkages within firm. Able to do this despite not being of very high management or educational qualifications.(M4)</p> <p>Despite lack of professionally educated management staff, their</p>	<p>In key departments like the dyed yarn department and dyed yarn issue, the fabric department, stitching department and packing and dispatch department, specific personnel were in charge to ensure accountability.</p> <p>Quality inspections were carried out by different personnel- quality supervisors were allocated to particular buyers. Their key requirements were taken care of by one or two persons. The delivery related requirements were taken care of by another set of individuals. (S5)</p> <p>The orders of the important buyers (in terms of volume or value) are handled by a group of</p>	<p>The human resources is a source of rent for all firms because they demonstrate:</p> <ol style="list-style-type: none"> <li>Strong adherence to quality standards that firms followed, whether ISO 9000 or SA 8000 or any other buyer specified standards.</li> <li>Strong experience of working with specific and variable product related instructions regarding the yarn counts, weaves and design differences.</li> <li>Were used to rapid changes in order design, colour and size.</li> <li>Many middle level work forces dealt directly with buyer needs. This was during the buyer visits when they were on factory site and needed quick sample alternatives to be generated. Buyer’s queries were also</li> </ol>

<p>working environment. Egalitarian and supportive-cross checked with workers. Fair work schedules, higher work satisfaction, work related tensions less. Philanthropy of owner mentioned. (H2)</p> <p>The respondent also mentioned the group of quality control staff who has been with the company for a long period. The quality control staff works at different locations. They check work at cooperatives at the initial level and during production. They also supervise the dyes to be used for dyeing operations when dyeing is done at weaving premise. They specify the quality of dyeing. All the quality control staff is ISO trained. They gravitate between production centers within the cluster and at outsourced work sites like Erode and Salem continuously checking quality at different job sites.</p>	<p>experience in the field, number of years of work, and ability to respond to buyer requirements very high. Trustworthiness high. Very important in this field where new designs and seasonal releases were very confidential, and easily leaked out by unscrupulous work force. (M5)</p> <p>20 staff members were associated with sample development.. the key personnel abilities mentioned were</p> <ol style="list-style-type: none"> <li>reliability</li> <li>quick response</li> <li>spontaneity. Time to action was fast. In the event of a defect being seen the problem was quickly traced back to factory, because not much of hierarchical issues. Hands on response, trust worthy (M5)</li> </ol> <p>Hands down approach to product development. 20 staff members associated with sample development for fairs. According to time of fairs</p>	<p>personnel drawn from all five departments. This means specific persons from the dyed yarn, and dyed yarn issue department, finished fabric department and packing and dispatch were each allocated to larger buyers. Four supervisors for three to four key buyers was the usual equation. For other buyers two groups of personnel were required. One set took care of the day to day requirements of each order that was in processing, while the second set catered to the needs of the buyer when they visited the supplier's premise, which was quite often. They were usually the more experienced personnel.</p>	<p>handled by particular staff in all cases, as the key buyers were allocated special staff members who were required to know at all times that buyer's order status.</p> <p>A source of weakening bargaining power was</p> <ol style="list-style-type: none"> <li>Migration of highly qualified staff to other jobs particularly 'gulf' Jobs.</li> <li>High turnover of female work force.</li> <li>Absence of a systematic resource development or improvement policy.</li> <li>Among older firms redundant weaver workforce.</li> </ol> <p>Firm able to monitor quality on offsite production locations (Karur, Erode, Tirupur) by a quality supervisor traveling weekly to these locations, to ensure the quality requirement are met (H10)</p> <p>Firm prided itself on execution and responsiveness to buyers. This may have been because of lack of rigid hierarchy or non emphasis on</p>
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<p>The merchandisers and tailors who are in house employees again are long standing staff with excellent work ethic. Merchandisers are allocated to buyers. One merchandiser may deal with 2-3 buyers. One merchandiser is required to handle key buyer related orders. And 2-3 merchandisers are allocated to check merchandise at Karur (H2)</p>	<p>needed to be developed. 10 staff members dealt with buyers on a day to day basis and were equipped to handle their queries. Firm prided itself on speed of execution. Modifications to product according to buyer requirement, execution of these changes in the factory, and handling of queries or requests from buyers very fast. (M5) The distance between execution of changes or modifications to product and queries and requests from buyers was very narrow. Implementation was very fast. This (M5)</p>	<p>professionally educated management staff. (M5) In house production planning was an operation that started after the confirmed order was received. All the steps together took about thirty days.(S3)</p>
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## 6.5.1.3 Organisation of Work

Table 6.6: Data Array of Firm Rents – Organisation of Work

FIRM H	FIRM M	FIRM S	CROSS CASE INFERENCES
<p>Organization of work</p> <ol style="list-style-type: none"> <li>Order for bag/cushion/roll obtained by fax or email</li> <li>Export manager and merchandisers plan production plan.</li> <li>Purchase order (PO is) made with accessories supplier depending on packing instruction.</li> <li>PO made with secondary suppliers regarding delivery date and rates. Negotiates with them.</li> <li>Merchandiser in charge of the particular buyer monitors weaving and works with Quality Control staff, accessory purchase is</li> </ol>	<p>Organization of work is based on the development of samples here, because the sample is the first point of communication between the company and prospective buyers. Development of samples precedes the fairs, timed for attendance in fairs.</p> <p>Once enquiries are received samples as per request are developed and sent for order approval. Amendments if any are made, in colour or design and this becomes the basis of the product development process carried out by the production planning department.</p> <p>2. A production plan is charted out and a manual requirement sheet prepared for collecting raw materials. If not available in the stores it is collected by ordering from stockists within Kannur. They stock yarn and</p>	<p>Organization of work was like this:</p> <ol style="list-style-type: none"> <li>In house production planning done when approved sample is sent to production department. Order of buyer, based on the sample developed checked for size of order, items specified, colour changes, coordinated items etc. a schedule of operations decided according to order</li> <li>Yarn purchase planned. (2 days)</li> <li>Accessory purchase planned for things like foam, zippers, thread, buttons, polyester fiber, PE cover and scheduling of receipt of the same. (S3)</li> </ol>	<p>It can be seen that the organization of work in the factory in all three cases centered around the provision of the following aspects to the buyer:</p> <ol style="list-style-type: none"> <li>Product innovation</li> <li>Meeting buyers' product specifications</li> <li>Reducing new product turnover time</li> <li>Customization of products every season.</li> <li>Maintaining confidentiality</li> <li>Providing the staff and knowledge base to cater to the highly variable sample development process.</li> <li>Providing middle level employees with the knowledge of quality and processes to deal with buyer queries</li> </ol>



<p>done to suit arrival of finished fabric at factory. Suppliers chosen for fabric production.</p> <p>6. Export manager prepares work order for made ups- scheduling operations</p> <p>7. Shipping agent nominated and shipping planned.(H3)</p> <p>As buyers came to facility to aid in design development, and stay on premises they prefer and appreciate streamlined and structured environment for work. It is also required according to SA requirements (H4)</p> <p>Erode and Karur (Tamil Nadu) used as a production source. A less costly fair quality based source developed at Karur to serve higher volume, lower cost oriented retailers (H10). It became necessary as 'handloom' origin no longer a</p>	<p>dyes and chemicals.</p> <p>3. A preliminary inspection of raw materials is followed by the dyeing process. Weaving follows. The source of weaving was in-house, Kannur based power looms and individual weavers and weaver cooperatives.</p> <p>4. Once product accepted after weaving, inspection was carried out and the products sent for out of state treatments if required.</p> <p>5. Products were sent by milk run to supplier points for treatments.</p> <p>4. A post weaving inspection was followed by stitching in the case of made ups. This was done in house. If the fabric was sent as rolls, then it was sent to the packing department after going through the required product tests and quality checks during the in process period</p> <p>5. Final inspection was done before dispatch. (record source of knowledge)</p>	<p>4. Yarn dyeing department. A dyeing plan developed before being sent to dye house, or to secondary producers. (15-20 days)</p> <p>5. Fabric weaving options firm had were :</p> <p>a.) Company's own rapier loom, for higher volume.</p> <p>b) Mat weaving if required, by mat weaving subcontractors.</p> <p>c) Job works to individual power looms (micro enterprises) in cluster.</p> <p>d) handloom cooperatives linked to firms production for decades (Kalliassery, Sankaranelloor, Kolathuvayil, Irinavu) (S3) (Weaving 15 days)</p> <p>6. Once weaving over, collected and quality checked.</p> <p>7. Specific processing or</p>	<p>in their own right.</p> <p>8. Knowledge and adhesion to universally accepted process standards, specific product standards and implementing best practices.</p> <p>Another aspect was that the inventory maintained at these factories was very little. Orders for raw materials like yarn and dyes and chemicals were made only after confirmation of the purchase order. Firms kept little stock of yarn as there were high variations in yarn counts of orders. These items were usually ordered from stockists, not more than three, within the district. So there was no delay in reaching these products to the factories.</p> <p>The respondent of Firm M mentioned how yarn prices were seriously affecting the profitability of operations. They were fluctuating on a weekly basis, and as purchase orders were made up to five months before the order needed to be sent (for the upcoming season), huge losses were seen due to</p>
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<p>priority for most buyers</p> <p>Strength of supplier should be to source all requirements for made ups, provide fair price, correct delivery and ensure shelf ready retail packing. The facility at Karur, is a vendor that does power loom production according to firm needs. Quality is checked by firm quality supervisors, weekly. Functional upgrading, and process up gradation done to meet requirements of this buyer category (H10)</p> <p>Firm rents in terms of production management, quality related and product range made it able to cater to wide range of customers.(H4)</p> <p>Key strengths were;</p> <ol style="list-style-type: none"> <li>1. High quality finishing</li> <li>2. Sourcing of high quality accessories according to</li> </ol>	<p>Though in the initial years of the industry, firm M was considered one of the biggest firms at the time. Manual production, a strong dependence on handlooms and lack of mechanization began to become limiting factors to their operations. The fixed assets of the firm increased as a result of taking up the huge weaving facility at Kolapuram. The number of weaving staff went up, so that though production capacity increase the firm found that production of handloom fabric became more difficult because of the rising costs.</p> <p>It was during the same decade that the firm greatly increased its handloom capacity that buyers became conscious of the cost of handlooms and started to demand price reductions to suit the trend of decreasing cost and increased value consciousness. At this point the company was burdened with excess handloom weaving capacity and</p>	<p>treatments carried out like preshrunk processing, fire retardancy, silicon finish, plastic lamination etc done in Coimbatore and Erode.</p> <ol style="list-style-type: none"> <li>8. Finishing department, done in house. Operations of cutting, stitching, filling with PUF, according to order. In house work of embroidery, stitching of accessories, cutting, tagging, labeling, packing for final shipment etc. middle management has a greater role in this. (20 days.</li> </ol> <p>30-35 days required to complete an order.</p> <p>The work is often centered on buyer's requirement. Buyers visit the factory for a week's duration as an intensive sample development exercise. In premise of factory carry out in tandem with firm staff, an intensive product /sample development, where the design and</p>	<p>the rising yarn prices. Forward contracts had been made in some cases which offered protection against such situations. Scarcity of yarn of certain counts was another drawback.</p> <p>Differences in the organization of work were seen between cases. The oldest firm was M which in its heyday had been one of the biggest in the area.</p> <p>In the run up to the MFA end, the capabilities of firms centered on lowering prices, enabling quick manufacture, and providing more efficient production. This was difficult in a hand loom set up, that depended on workers' productivity and was an almost completely manual process.</p> <p>Firm M suffered from the existence of a huge handloom establishment, that the other two cases were quick to dispense with when the need arose (the presence of smaller number of looms and weaving staff may have made this possible).</p> <p>The firm also had a strong weaver's union and older workers who had been</p>
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<p>buyer requirements.</p> <ol style="list-style-type: none"> <li>3. Designs of buyer, produced to perfection.</li> <li>4. Ability to customize product depending on buyer need.</li> <li>5. Sourcing strengths linking many suppliers of raw materials and pooling production to yield results.</li> <li>6. Diverse manufactured product range. Constant emphasis on new products, meeting quality standards and satisfying different buyer classes or segments and consistent delivery.(H4)</li> </ol>	<p>found that value or demand of handloom had fallen drastically. The company was by then saddled with huge capacity, and company found it difficult to change or adapt with a high percentage of fixed capacity. From 1994-2000 it was seen that there was a huge gap in the capacity created by acquiring the handloom factory and the utilization of it. In 1998 handloom cost became unacceptable to buyers and respondents realized that it was necessary to actively increase number of buyers to utilize the huge fixed capacity that was not being sufficiently used. (M3)</p>	<p>construction of potential products is worked out. Costing is also done. Product variations are quickly made. For the sampling, weaving dyeing and finishing is carried out in the factory premise, using handlooms for the same. Dyeing facility for small samples also maintained. (S4)(S5)</p>	<p>with the firm for decades. This made changing the organization of work to increase speed, or productivity difficult to implement. The respondent did not want to retrench them because of the length of their working relationship, and the dependence for livelihood. It may stem from the respondent's own weaver roots and his social linkages with the community.</p>
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## 6.5.1.4 Marketing

Table 6.7: Data Array of Firm Rents – Marketing

FIRM H	FIRM M	FIRM S	CROSS CASE INFERENCES
<p>Use of firm agent in buyer markets- fashion designers working on commission to get approval for designs developed within firm.(H3). Able to market firm's own design on designers recommendation</p> <p>The designers try to market the designs developed at the supplier's premises to different segments of retailers like interior designers, furnishing retailers, larger retail chains or standalone shops.</p> <p>Further orders were obtained by the company also through referrals. (H6)</p> <p>Existing buyers referred supplier to other companies recommending their quality and</p>	<p>Firm had employed the services of a freelance designer to create the artwork or prepare sample designs based on the market trends. (M2)</p> <p>They created the designs according to the season's colours and textures. This was also suitable for the country they were in. These designs were faxed to the firm who then made suggestions of fabric type, the technical aspects, the costing and sourcing of different yarns or finishes as well as costing of finished products. These were sent to the designers after incorporating the changes they suggested.</p> <p>The completed designs were</p>	<p>Firm did not feel that it was a priority to expand into new markets or look for new buyers. This was not a priority as they felt they could always increase their customers. The demand was there. Actively searching for new buyers was not considered important enough. Focus was on new product development, finding new uses of existing products etc. Constantly surprising customers was a strong need.</p> <p>Active market promotion had not been pursued because they had active work. Searching for buyers had not been done because they were able to have continuous buyers whose</p>	<p>The home textiles segment was similar in its segmentation to apparel fashions or segments which also varied from discount pricing or value stores to fair price shops to premium and upper class segments. The demands on supplier hubs for aspects like design development, sample development, retail packing, small batches production etc became higher as the product became of higher value and cost increased. The segments that the firm dealt with were upper middle and premium segments</p> <p>Marketing as source of rent in global value chains is not a common phenomenon. Many studies emphasize the obstacles that firms face when they try to find other buyers, or try to develop products to suit evolving customer needs.</p> <p>Research in global footwear chains suggest that local producers (in China, India and Brazil) face barriers when they try to develop design and marketing competence. (Schmitz &amp; Knorrnga,</p>

<p>products. It was possible to meet buyers and prospects at trade fairs. Many enquiries were obtained for the fair samples which were followed up. Sometimes they became orders. (H6) Non adversarial and balanced relationship with existing buyers where the suppliers were free to interact with and meet new buyers from the same segment, without any monopolistic limits being suggested by key buyers. (H6)</p>	<p>then sent to the designers who also acted as the firm agents in the buyer's market (M2) They approached store retailers, standalones and importer distributors to place orders.(M2) This practice was very beneficial to the firm since the designer had a much better idea of market trends than suppliers. 1. It increased the chances of being successful in creating winning designs 2. They were able to come out with contemporary product range or collection. It may consist of a set of lifestyle products serving different needs but sold together as a single SKU. 3. It added value to their offering. Fair visits crucial to marketing of firm offerings. Fairs –at least two in a</p>	<p>demand was high. (S5) Out of a turnover of twenty crore rupees about two crore rupees was directed towards sample development, logistics, fair travel and attendance, fair based sample production. (S5) In terms of technology the firm was one of the best in the region. Firm not catering to volume or capacity buyers. Volume or capacity was not strength of the region. It specialized in different designs, unique products, making innovative uses of products or specialized products.(S1) Constantly surprising customers with new designs a must. Expressed a strong need to diversify into new home category products and increase variety as this was a core need to the area. (S1)</p>	<p>2000 cited in Humphrey &amp; Schmitz, 2003). Bazan and Navas- Aleman (2004,Ch 5) in their recent study on Brazilian footwear manufacturers confirm that even among leading export manufacturers, making investments in design and market is not done for years, fearing that this may upset their main buyer who accounted for 80% of their output. They preferred to remain subjugated. Own branding, design and marketing was done almost two decades after their export initiation prompted by sagging sales and declining profit margins. (Humphrey &amp; Schmitz, 2003) A similar phenomenon was seen in the tightly controlled garment chains from Mauritius to the U.S. via the far East. No functional upgrading, marketing or developing new products by taking up value enhancing activities was allowed by the lead firms located in the far East. (Gibbon, 2000a) The phenomenon of triangle manufacturing is seen in their case. Bair and Gereffi (2001: 1895) demonstrate in their study of the Mexican cluster of T orreon, producing blue jeans for the US market, that the activities centered around translating buyer's specifications into practical knowledge to enable workers to</p>
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	<p>year – targeting new regions. 28lakhs spent per fair- 70% on new sample developments for fair.</p>	<p>Company was trying to reduce the number of orders because of their emphasis on total solution provision, and was taking orders they could comfortably handle. This had happened because of their increased investment. They could offer better wages because of the bigger scale they had. (S4)</p>	<p>assemble jeans. No manufacturer has produced own brands for sale in US or Mexican market. Chiu and Wong (2002: 1) describe how the East Asian electronic industry was relegated to low end production because of their weaknesses in marketing and tight control of overseas distribution by buyers. The power asymmetry precedes information asymmetry which means buyers' approval is always needed and their orders and sales forecasts alone are the primary source of market information. They get locked into the subcontractor role, and are unable to venture into branding, marketing or product development. The strong emphasis on market promotion activities by case study firms suggest that neither was there an attempt by lead firms or buyer firms to control their marketing activities or the product innovation processes they undertook for fairs, or did they block suppliers' negotiations with new or potential buying firms</p>
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6.5.1.5. R&D Rents

Table 6.8: Data Array of Firm Rents – R&D Rents

FIRM H	FIRM M	FIRM S	CROSS CASE INFERENCES
<p>New product development is done through</p> <p>A) Buyer's own designers send designs. Samples developed here. 50% of company's buyers in this category.</p> <p>B) 35-40% of buyers don't develop product as key strength. Specify guidelines and seasonal trends (mood boards). Design development at supplier premise.</p> <p>C) 10% depend on suppliers entirely for their designing and production needs.</p> <p>Firm able to cater to all three customer needs.</p>	<p>New product development constantly done. On a day to day basis 5-6 samples in various stages of production.</p> <p>Important source of rent as buyers emphasized new or innovative products. (M4), (M5)</p> <p>Firm's product development requirement attached to fair participation. Sample development succeeded fair visits.</p> <p>Visiting international fairs and exhibiting products done at least twice a year. Most new product requirements came after fair visits and enquiries generated. (M4)</p> <p>Proprietor strongly exposed to yearly trends and seasonal changes through visits to fairs in different</p>	<p>Idea generation for new product development usually done by buyers and suppliers opinions about the ability to deliver fabrics with the specified construction, colours and fastness considered. (S3)</p> <p>feasibility decided by both parties</p> <p>Buyers ensured suppliers were able to carry out production of the item through the process of involving theme in this decision process to the fullest extent. (S3)</p> <p>This was done through buyer visits scheduled twice an year to the factory. Discussions carried out within factory premise, in showroom of firm, decorated</p>	<p>Developing products for buyers centered around three aspects</p> <p>a. Producing goods according to the specifications of buyers and in the required quality and finish.</p> <p>b. Producing goods which may meet the standards of potential buyers when the firm exhibits products at fairs.</p> <p>c. Producing goods for buyers who have no product development infrastructure (designers, mood boards) and need new designs developed at supplier premise.</p> <p>Some buyers are 'design takers', who buy products from suppliers who take responsibility for design and production. In such cases the suppliers have greater competencies in these areas than buyers.</p>

<p>Keeps abreast with seasonal colours, textures and fiber changes through fair visits and country sojourns. Strong experimental emphasis of proprietor. (H4)</p> <p>R&amp;D in new products combined effort of company, buyer and second tier producers- a synergistic collaborative action, strongly governed by fashion and season.</p> <p>Sample development is one of the highly specialized tasks in home textile production.</p> <p>The new product development process for the field is as complicated as apparel design where fashion trends, colors and seasonal changes are incorporated into new weaves, textures and products with high confidentiality. Usually this is an in-house process but for the company it is completely taken</p>	<p>countries. This is used in developing own products. (M4)</p> <p>Sample development for fairs is prepared after visits to fairs at various international locations. Samples were prepared after enquiries are received after visits to fairs. These samples may be</p> <ol style="list-style-type: none"> <li>New samples and products developed for new buyers or groups or to target specific countries.</li> <li>Sample developed for existing buyers who are visiting the fair. Usually 80% of these are confirmed orders.</li> <li>Samples prepared in advance – these are researched, planned and developed according to the season.</li> </ol> <p>Firm had the facility to develop samples as a priority.</p>	<p>with firm's products over years. (S3)</p> <p>Usually products were</p> <ol style="list-style-type: none"> <li>An existing product reordered in a shade or colour change</li> <li>An entirely new promotion planned based on a season, with a set of products. – ideas, photos and prototypes are tried out, with suppliers considering their ability to make products at the required prices, and costing. (S3)</li> </ol> <p>After the buyer visit, samples or options were sent in different colour and design. This was to compare actual with predicted design developed. Further discussion is in buyers settings, changes may be made, but as price points are finalized earlier, the sampling process results in products being approved for</p>	<p>This happens when the buyers are relatively small, they lack the ability to define product or process parameters or the volume requirements are too small to justify the costs of explicit coordination (Humphrey and Schmitz, 2003: 22). This is seen in the case of some customers of firm H.</p> <p>Firm M exhibits a competency in producing variety of non standard products that may be traded through arm's length market relationships. They are able to meet requirements of customers without inputs with regard to product or design. This ability comes with familiarity with the user market, a fact which cannot be disputed in the case of firm M, in the business for about forty five years. This also explains its sample development process preceding trade fairs.</p> <p>Tewari's (1999) analysis of exports from the Ludhiana knitwear cluster to advanced country markets shows a similarity. Many leading knitwear exporters prefer to work with smaller foreign buyers rather than</p>
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<p>up by one second tier producer outside of the firm- a single cooperative society. It has the utmost confidence that new designs will not be leaked out from its premises and agreement has been written for the same between the two parties. The benefits that the cooperative has by associating with the export firm are:</p> <ol style="list-style-type: none"> <li>1. Consistent work</li> <li>2. Earnings far better than earnings from domestic sale of handlooms.</li> <li>3. Reputation. The Morazha cooperative society has an excellent reputation as a result of this inter firm association. Besides being one of the most profitable societies in Kannur, the work ethic, commitment to quality, volumes sold and profit generated year on</li> </ol>	<p>Dyeing unit looms and cutting and stitching department- all new samples developed in handloom using own loom facility. Other samples needed to be developed one month after the fair.</p> <p>About 50% of these samples were confirmed orders. Others were potential order items but they were developed after specific enquiries received from fairs.</p> <p>For the firm sample creation was done after fair visits. According to respondents it was of prime importance, because it represented the greatest chance of becoming a permanent order. The creation of samples and follow up after fair visits was crucial to the firm's success though not always were enquiries converted to orders.</p> <p>A key point was that the firm did better business in general product fairs or home based fairs rather than specific home furnishing</p>	<p>production and final decision is taken. (S3)</p> <p>Firm was trying to improve its offering of a complete solution by making the value adding processes as efficient as possible. (S4)</p> <p>One area was in the process of sample development. Sampling or creation of new product samples was now done very fast for meeting the buyer's approval.</p> <p>Providing new samples with changes incorporated by buyer enabled firm to decrease response time and increase conversion ratios. (Conversion of design to sample). The company was able to provide this facility by</p> <ol style="list-style-type: none"> <li>1. good sample development with best staff and techniques</li> </ol>	<p>large retailers because these relationships are more symmetrical and give them the space for learning gradually in the context of small orders.</p> <p>In Kannur apathy towards large retailers like Walmart and IKEA was seen across interviews and cases citing 'high risks' and 'poor negotiability in prices and margins' and 'undermining of quality standards'. They were in fact avoided as a few exporters had burnt their fingers trying to deal with the volumes required and price constraints, lured by the huge advances and scale of orders. Rumors of how firms had gone bankrupt serving this group were rife, and no firm showed a marked interest in dealing with this segment of retailers</p> <p>In Kannur firms are seen to prefer smaller, more select retailers with fewer stores, and more exclusive products. Though their orders are smaller, suppliers are able to ensure the high product variability, smaller scales and frequent orders that characterize this group. They also develop</p>
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<p>year makes it something of a benchmark among cooperative establishments.</p> <p>4. The reputation obtained by making fabrics of international standards, utilizing design strengths and weavers craft has an effect on the overall benefit s the firm obtains. Converting paper or magazine based designs, or design suggestions to fabric require the design to be codifiable, and technically complex. Technical detail is needed not in terms of machinery for handloom weaving but in the skill component, design intricacy and unique weaves; they must also be able to implement certain product and process protocols related to the product and the ability to meet quality</p>	<p>based fairs. Cost of stand, travel, sample development etc came to seven or eight lakhs and needed to be better utilized, converted to orders.</p> <p>Success was more in those fairs when they were followed up by orders. Not always were samples converted to orders. Usually two fairs a year were attended. The firm also had a policy of visiting a new country every year.</p> <p>Visiting new fairs in different countries was done. That way the fairs became a meeting point for buyers. These fairs were important to examine product offerings the kinds of colours and seasonal changes.</p>	<p>2. the new sample options are presented well to buyers</p> <p>3. good quality (continuously improving quality of end product</p> <p>4. On time according to their requirement. (S4)</p> <p>If sourcing companies could offer a complete and integrated set of solutions- a solution provider – this was the new focus. Buyers were willing to pay for a complete set of solutions or for the integrated approach. The company was trying to give the buyer a complete sourcing experience (S4).</p> <p>The buyers need for special promotions every 3 months launched at new design fairs. New sample development and design innovation strongly emphasized. Highly competition</p>	<p>their own products traveling to buyer markets themselves and hiring designers who have first hand knowledge of final markets. This is seconded by research in the Ludhiana woollen cluster (Tewari, 1999) where factory owners spent a fair amount of their revenue visiting fairs, meeting up with buyers in their home markets.</p> <p>The ability to engage in design is enabled by taking up with smaller rather than larger customers. The market based relationships enable functional upgrading. They participate in fairs so that they find new customers and orders, and for this they need to be able to develop designs and invest in marketing. This is possible because they are not locked in the relationships or sphere of production with existing buyers.</p> <p>Firm S specified that provision of a facility that enabled quick response to designing requirements and sample development was important to buyers.</p> <p>Firms invest in developing this facility so</p>
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<p>attributes stressed by the company's key buyers.</p>		<p>intensive and much shorter development periods demanded. It needed its own facility as reliance on local power loom and handloom was problematic. (S5)</p>	<p>that quick development is possible, a need that characterizes fashion oriented or seasonal products.</p> <p>It is seen that producers in developing countries experience fast process and product upgrading but functional upgrading is not so rapid, if they conflict with the chain governor's core competence (Humphrey &amp; Schmitz, 2003). It may be blocked. In the case of firm S, they were finalizing their entry into an own branding strategy (OBM) to German markets. This is a case where efforts were not blocked and may be because they were entering into a different segment that did not conflict with their buyers in that market.</p>
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6.5.2 Data Array of Resource Based Rents

Table 6.9: Data Array of Resource Based Rents

FIRM H	FIRM M	FIRM S	CROSS CASE INFERENCES
<p>Quality of water-soft – Dye absorbency and brightness higher(H1) Consciousness of quality high in region, conversion of difficult designs possible with highly skilled weavers (H 1). Kannur fabrics characterized by: a) Design intricacy and difficulty levels b) Colours of deeper hues and very slight tone variations could be produced. c) Small batches of production in small quantities d) Flexible or variable design-</p>	<p>The following factors were mentioned as central to the importance of the region in weaving: 1. Richness of colours because of the soft water inherent in the region. 2. Looms: the frame looms characteristic of the region being very heavy, the beating action during weaving caused fabric to be tight. The tightness and stiffness enabled fabrics to drape well. 3. The raw yarn went through more processing. The process of boiling yarn was a twelve hour process, which was not reduced</p>	<p>Kannur as a region manufacturing woven products had some specialities. 1. Production specialized in low quality but high volume of product in Karur, while in Kannur, the strengths were high quality, low volume, higher value products. This did not mean that margins were particularly high, but high value in terms of the use of a.) high quality threads (high density of threads) b)design variety high, more variety or range of colours c) quantity less (S2) Resource based strengths like bleaching, boiling of yarn and colour absorbency used to be a</p>	<p>The importance of these attributes appear to be falling because of the following factors: 1. An inability to invest greatly in secondary activities like dye house or dyeing facility incorporating very stringent environmental constraints and huge investment. It works out cheaper to carry out the process outside of the cluster at facilities which specialize in these, like dye houses in Tamil Nadu. 2. the availability of soft water or abundant water sources becoming questionable 3. The disposal of waste water becomes problematic 4. If dyeing can be done at cheaper cost</p>

<p>design requirement varies from batch to batch-colour variations also.</p> <p>e) People centric nature of operations</p> <p>f) Strong focus on non tangible benefits like designing, design development and execution ,fabric meterage with high variation etc</p> <p>Reactive dyes being used in place of vat dyes. Wet dye process of vat dyeing was one of the resource rents of the region. Value of this being lost as dyeing method changed. (H2)</p>	<p>or lessened to save time or labour. It was carried out to its completion.</p> <p>4. The sheer length of process and completeness with which stages were carried out caused an increase in the colour absorption and increased the colour's depth and brightness. (M2)</p>	<p>distinguishing characteristic. In Kannur fabrics go through an 8 hour boiling process. This greatly increases absorberency of dyes and colour fastness. This used to be an important strength that was fast being lost. (S2)</p> <p>Nowadays dyeing was not done in factories because of the high investment called for in water treatment and disposal, the legislative governance requirements called for installation of RO units which were prohibitively expensive.(S2)</p> <p>Many firms did dyeing at Coimbatore or specialized dye houses which undertook dyeing as job works.</p>	<p>outside the cluster it is preferred provided colour consistency is maintained. In the event of dyeing done outside of cluster quality assurance is not compromised because on a weekly basis or twice a week, quality control supervisors travel to dyeing factories and to weaving mills (power looms) to examine fabric, ensure quality, enabling continuous fabric assessment.(S2)</p> <p>Though these benefits were responsible for the quality of products initially they were no longer a source of rent. More dyeing was done outside of the cluster and weaving on handlooms was going down.</p> <p>The exception could be said about the weaving skill or innate abilities of the personnel form the region. A strong quality orientation, a focus on painstaking work processes and a history of catering to German specifications and practices must have had an effect on the posterity.</p>
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6.5.3 Data Array of Relational or Chain Rents

Table 6.10: Data Array of Relational or Chain Rents

FIRM H	FIRM M	FIRM S	CROSS CASE INFERENCES
<p>Product/sample development combined activity between buyer &amp; firm. New weaving, yarns &amp; counts, high buyer involvement, within firm, up to second tier level.(H2)</p> <p>Key staff like QC, Merchandisers check work at 3 levels –before, during and after production at secondary producers (H2)</p> <p>Personal relationships were basis of buyer linkages. Compatibility and satisfaction and quality at a personal level cemented relationship. Goes beyond a ‘supplier-buyer’ relationship. Buyer is confident of suppliers ability to:</p>	<p>Firm had utilized the network of cooperatives in Kannur for fabric weaving during earlier years. it also utilized a network of home based weavers, individuals or families, to carry out production. These were done at their homes, and were all in the vicinity of the firm.</p> <p>Social embeddedness of the firm very strong as women weavers and support staff collected work daily from the firm to do at their homes and were remunerated conversion rates. (M4)</p> <p>Strong ties with community and with firm personnel. The length of ties went back to time of the grandfather (founder) of the</p>	<p>In the late 1990s firm was able to learn quality systems and implementation, through strong buyer relationship. Its Japanese buyer took it as a personal responsibility to develop quality management practices in the firm. Methods, operational procedures, streamlined to TQM principles. Not only for their products but for all products manufactured by firm. (S5)</p> <p>The Japanese buyer stayed on the factory premise for six months, giving personal attention at each stage, pre loom activity, finishing, weaving etc. building construction also considering worker’s safety. The trust relationship was responsible for this. (S5)</p>	<p>Relational rents arise from purposeful activities taking place between groups of firms. They may be the relationships between firms within the industry on a horizontal basis or linkages up the chain in a vertical manner. In examining case study firms the following relational rents are seen:</p> <p>a. Relational or chain rents with firms down the chain, which are supplying firms or raw material providers.</p> <p>b. Firms which are also producers but are of smaller scale or size. They may be producing for the domestic market or for area based needs. These may also be privately managed or quasi governmental or fully managed by the government.</p>

<p>1. Follow orders</p> <p>2. To meet codified specifications of product construction.</p> <p>3. To meet quality standards</p> <p>4. To satisfy non tangible benefits like ETI (ethical trade initiative criteria or worker welfare measures, these being key selling criteria for buyer.(H2)</p> <p>Relationship sustained by</p> <p>a. Frequent visits to supplier sites.</p> <p>b. Supplier involvement in idea generation.</p> <p>c. Other supplier linkages introduced to buyer through the company in a non confrontational or supportive way. (H2)</p> <p>Design development exclusive</p>	<p>present Managing director, and the strength of ties meant drastic measures regarding workers and staff (cutting staff, increasing efficiency etc could not be done. (M3)</p> <p>To handle excess weaving staff planned to organize them into cooperatives to avail of government support measures and ensure their survival (M3). There was a strong interest in their well being as seen by firm's desire to relocate and refurbish them without just stopping their service and that of the handloom division. (M3)</p> <p>Three types of buyers associated with company.</p> <p>33% were top end stores with high quality consciousness. They focused on non tangible competencies of the buyer such</p>	<p>Buyer visits twice an year entailed</p> <p>a. Ideas being shared about new products , colours or season changes</p> <p>b. Whether designs workable, the price points and manufacturing costs</p> <p>c. Additional costs.</p> <p>d. Finalization of decision to develop</p> <p>e. Decision on how much lead time. Usually 2-3 weeks for first sample presentation.(S3)</p> <p>Earlier the firm used to give work to 20-25 societies. This had now fallen to 5. Though it was true that cooperatives were making less than their peak years (pre MFA end), but they operated because of the financial support given by the government. They were strongly supported by government rebates, Onam sales benefits, purchase price</p>	<p>c. Firms which are of the same size or cater to the same markets. These may be producing products for export market but there may be an association or trade body that works to build market linkages, engage in lobbying, etc. They may be formed by the combined action or membership of similar firms in the same region.</p> <p>d. Firms which are intermediaries or assist in reaching products to final markets like supply chain management firms, freight forwarders, agents of buyers or sellers, trading companies, certifying bodies or labs and government based aid agencies.</p> <p>e. Firms which are final buyers. These may be large importers, wholesalers or chain store buyers, or individual retailers.</p> <p>Relational rents in the cluster are seen with secondary producers. The quasi governmental organizations have had an important role in the popularization of</p>
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<p>and confidentially done. Firm satisfies needs of buyer. Long term relation ensures firm knows buyer needs</p> <p>Relational rents down the chain (second tier producers) strong. Verticalization of production with cooperatives and individuals.</p> <p>Doing high end export orders of firm H has enabled second tier producers to innovate, learn new skills, weaves, fiber combinations and quality levels. An up gradation of process occurs when new processes or finishes is done. (H3)</p> <p>Quick orders of display products, salesmen samples or pilot test products necessitate reduction of lead times to 30-45 days. Firm able to fulfill order requirements because of strong second supplier linkages. Not having own production facility not</p>	<p>as the ability to follow ethical trade initiatives and SA standards.</p> <p>This segment has been supplied by company for over 20 years in some cases. From the time of first owner (father of present owner).</p> <p>Relationship was sustained till the present. Segment's buyers still satisfied with offering of company. Trust very strongly dominant in this segment- the basis of the relationship. (M5)</p> <p>Next 33% some buyers high quality conscious, and some are price oriented so firm had to balance these two concerns.</p> <p>It was able to do this by a balancing among different sources of production. These were local power loom, individual weavers and weaver</p>	<p>offs when yarn purchased from NHDC, government purchase of handloom orders (S5)</p> <p>The relational rent reduced with cooperatives when</p> <p>a. Firm established own power looms to meet the need of bulk or volume markets with fair or lower prices.</p> <p>b. Power looms run by homes with 1-2 looms in households also gained popularity as exporters demand for handloom fell. By using local power looms, 20% more profit could be generated.</p> <p>c. Cooperative societies still being used because of the social linkages. This goes back through decades.</p> <p>d. Price difference high between handloom and power loom</p> <p>Quality difference-quality of handloom was going down because</p>	<p>this industry. The handloom cooperatives have a long history in India. The cooperative movement was started to enable smaller producers to increase their scale and ability to market by pooling monetary resources and their production facilities at a single location. It was also done to enable self sufficiency in producing goods within the country. This would enable them to take up larger orders and do more lucrative work and finance their ventures.</p> <p>In most of the states cooperatives were started among primary sectors like agriculture, dairy, weaving, craftsmen, etc. the weavers cooperatives are well entrenched in the Indian policy decisions with the government taking up their needs as a policy based decision of the center.</p> <p>Despite this the cooperative establishment has not always been beneficial to weavers with issues of caste based trade, master weaver dominance and lack of working capital</p>
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<p>limiting the firm. Continuous, weekly replenishment orders done at vertically integrated cooperative.(H3)</p> <p>Second tier supplier linkage goes back 20 years. Four categories</p> <p>a) Handloom cooperatives in Kannur</p> <p>b) Power looms in Kannur having 2-5 looms</p> <p>c) Individual handloom weavers not affiliated to cooperatives</p> <p>d) Power looms at Karur - job works for large volume, cost controlled orders (H5)</p> <p>Decision of which producer to allot fabric production was a combined decision of firm's own quality staff, supervisor, export manager and secondary suppliers. Their deliverability and order executability was</p>	<p>cooperatives. (M4)</p> <p>The various sources of production was carried out in the firm in the rations</p> <p>In house handloom weaving:30%</p> <p>Power looms based in Kannur – smaller firms having 5-7 looms- 50%</p> <p>Cooperatives and individual weaver 27%(M4)</p> <p>80% of power looms and handloom producers are supported by the exporter. Dyed yarn was usually supplied to them for conversion. In an estimate of cost for firm 30% was yarn cost</p> <p>30% wages and 30% dyes and chemicals. (M10)</p> <p>Exporters felt that power looms if they were not happy with the rates, need not take up</p>	<p>of qualified weavers migrating to other trades. O(S5)</p> <p>The process of buyers staying at the factory for weeks (1-2), in planning for a seasons full release, gave an edge to them that a buyer making suggestions abroad , could not.(S5)</p> <p>The entire process of design suggestion, interaction s of suppliers, costing processes and options, design approval systems between buyers or their key company employees was a personalized one to one process; the organizational learning generated from this process was invaluable to the company. (S5)</p> <p>The firm sometimes took up additional functions of its older buyers. These buyers gave access to their inventory levels to suppliers to enable automatic reorder or tailored sourcing. A continuous</p>	<p>dominating their operation.</p> <p>The handloom weaver cooperatives in Kannur present a different picture. Though issues of scale and working capital exist here also, they have been linked to producing for export markets for decades. Some of the first handloom exporters relied on cooperative societies to manufacture the handloom cloth. Many of them started out by catering to domestic markets, not within Kerala or the district but located in the larger cities like Bangalore, Delhi and Mumbai.</p> <p>The orders were produced as job works at these societies, consolidated and sent by train or road to these markets. Later the same products were outsourced by traders in these seafaring routes, who were agents of buyers. They procured the fabric from handloom centers like Kannur and Kozhikode and from the Mumbai port they were shipped to other countries.</p> <p>Many present day exporters have their roots in such linkages. The first factories</p>
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<p>ensured by checking with them, and their approval obtained before order given.(H6)</p> <p>Firm H has constantly ensured chain benefits passed down to lower linkages. This is seen in the prices they receive and patronage. The social linkages and embeddedness of these second producers also enables them to benefit.</p> <p>SA standards of firm H have been beneficial to secondary suppliers. Wages, benefits, insurance, gratuity etc not only to firm staff but passed down to second tier suppliers. Cross verified by quality enforcers through documentation. Cooperatives dedicated to the company received the benefits of SA 8000 certification. They are taken into confidence in the SA evaluation procedures, conversing with officials and</p>	<p>production as they themselves were working on tight margins with buyers. Power looms, especially smaller firms took work more often to survive than to make profit. This was because they were home run firms or received trickle down orders of larger firms. (M10)</p>	<p>reordering was done.</p> <p>This meant that the firm had access to weekly demand figures to plan the next batch of products to be sent (S5)</p> <p>Firm wanted to enter into activities that would give it more returns, since it had already hugely invested in scale and differentiation activities (fabric and made ups finishing activities). Own brand manufacturing seemed to be a natural progression to the firm. (S10)</p> <p>The branding strategy was based on the firm's link with one of its German buyers. At the level of an importer distributor, it was offering financial and marketing advice to an established chain store in that country. (S5)</p> <p>This link would be used for setting up base in the EU and distribution to</p>	<p>were established by agents who managed such sourcing practices, and later set up their own manufacturing s unit. Most of the units are managed by the second and third generative producers the linkages with cooperative producers are community based and deeply ingrained.</p> <p>The individual weavers are a second group of secondary producers who have been very important to the trade. Operating from their homes and with other family members (mostly females), doing the pre loom works, they stayed close to factories and carried work home daily or weekly.</p> <p>Mostly conversion of dyed yarn to fabric was done by them in small scales. Limited lengths or small orders, with variable or complex design have been taken up by single weavers who ensured that they were done in the best way. This was during the heyday of handloom cloth, the pre MFA era, and basking in the glory of the 'crepe' fabric.</p>
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<p>taking part in interviews. Trust based, non adversarial, advocacy based relation, with full confidence of lower linkages (H6)</p> <p>Business with distributor wholesalers/ design houses profitable for firm. Relation based on delivery of good quality, consistently.</p> <ol style="list-style-type: none"> <li>1. Buyers give premium for 'hand woven' tag.</li> <li>2. Firm ships stocks to particular stores in other countries in case of stock outs, within 20 days.</li> <li>3. Enables product and process upgrading. New functions like inventory management and logistics planning taken up.(H4)</li> </ol>	<p>other countries.</p> <p>The relational rents as a result of strong buyer linkages have become useful for the firm's upgrading strategy. The relationship with the buyer who has also agreed to take up distribution and warehousing for the EU market is the basis of this new market opportunity. (S10)</p>	<p>They became a neglected lot as they have not received due recognition by government policy at state level. Their contribution to the export trade was sought to be recognized by the TANIMA scheme suggested by the government.</p> <p>The power looms in Kannur have been mostly small in scale operating from their homes or establishing smaller weaving sheds attached to their homes. Many former handloom weavers took up power loom weaving within the region itself. This mushrooming of tiny establishments has meant that the entire sector stands to lose.</p> <p>There are few large players – two or three firms alone have more than twenty power looms. The rest are all close to near closure because of the lack of working capital, the poor cost management, the poor remuneration and their lack of bargaining power.</p> <p>The export firms also insisted on very stringent quality, and the failure to do so meant that the fabric was rejected or not</p>
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<p>remunerated at the agreed price. This has been harmful to the sector as they receive very little government support unlike the cooperatives. Many firms closed down, due to the undercutting, increased competition and poor work ethics.</p>			
<p>The relational rents with buyers center on the length of their relationship. The firms have long term linkages with buyers, often built on personal relationships, meetings on a yearly basis, unofficial communications and partnerships. The suppliers become advocates of the firm's products</p>			

6.5.4 Data Array of Exogenous Rents

6.5.4.1. Policy Rents

Table 6.11: Data Array of Exogenous Rents - Policy Rents

FIRM H	FIRM M	FIRM S	CROSS CASE INFERENCES
<p>Government was trying to improve the falling popularity of hand loomed products by its 'Handloom Mark' and 'Silk Mark' initiatives. This was a certificate of authenticity about the source of handloom and verification of its quality. (H1)</p> <p>This becomes meaningful only if buyer insisted on handloom, which they did not after the MFA. (H1)</p>	<p>TUF Scheme was given to the textile based units to modernize their facilities. It was a central government scheme that was taken up actively by Tamil Nadu based units to upgrade their facility and increase their production base. Investment had been done in increasing type of looms, support activities, quality management systems and certification mechanisms. It was a scheme open to Kannur based firms as well but was not taken up well by the region. (M2)</p> <p>Duty drawback scheme of the government at 4-8%. Packing credit and allowance and insurance</p>	<p>In Jan 2008, the firm started its own high tech rapier loom factory at Chalode, near Kannur. High production capacity loom was the first in the region. This was possible because of the government grant to firm on achieving export surplus and target achievement. It could import capital goods duty free, and was able to import this machine without the duty component, representing a major savings.(S6)</p> <p>Export firms were not getting as much state government support as the cooperative sector was getting. The textile park was</p>	<p>Though many schemes for export firms and particularly in the handloom and textile policy exist, the case study firms and broadly across the survey did not mention many such schemes as being particularly beneficial to them, or have contributed to their market development or promotional efforts.</p> <p>Repeated questions were asked about the external or policy related sources of rent, but it could be inferred that even though such schemes exist on paper, and are promoted continuously in the national textile policy releases few of these have failed to find favor with the community that matters.- the exporting community.</p> <p>The Kannur handlooms received the GI (Geographical Indication) status in the latter</p>

	<p>through ECGC is utilized by the company.(M4)</p>	<p>first rejected by the state government. Only when the centre approved was it followed up by approval at state level. There was also a great delay in the time for implementation of the park. Given approval in 2006, it was opened in 2010. (S5)</p>	<p>half of 2010. It recognized the predominance of the region in the home furnishings and made ups product category. The question remains as to what extent this will benefit the export volumes from the region. The handloom Mark initiative of the Commissioner of Handlooms was developed to add value to the handloom based products that were produced by traditional handloom weavers in different parts of India. It is beneficial if the products are only hand woven. This is no longer the case in Kannur, which sources finished fabric from a combination of sources, of which power loom is increasing in importance. This means that the benefits of the 'handloom mark' cannot be used for exports from this cluster.</p>
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6.5.4.2 Infrastructure Rents

Table 6.12: Data Array of Exogenous Rents - Infrastructure Rents

FIRM H	FIRM M	FIIRM S	CROSS CASE INFERENCES
<p>The external sources of rents in the form of exogenous rents – policy actions, infrastructure of the region etc did not seem to benefit the firm to any great degree.</p> <p>Infrastructure in the district was a weak link. The roads were stated as being narrow, the electrical wires overhanging the city area were hazards for the containers passing to and from the region, and the region lacked air connectivity, the nearest airport was 140 km away and this discouraged prospective buyer visits.</p>	<p>The Integrated Textile Park at Nadukani was approved in 2004 -05 as an attempt to provide additional land and facilities for firms for export. (M5)</p> <p>It was first rejected by the state government. Then the KHEO got involved at the central government and with the contribution of these private entrepreneurs they were able to get clearance for a forty lakh project where twenty lakhs was approved by the center and twenty lakhs by State Government (M5)</p> <p>Firm planned to use government based incentive schemes to generate revenue for the handloom weavers based at firm, who were not easily sustained.(lack of handloom demand)(M6)</p>	<p>Infrastructure was considered to be a disadvantage.</p>	<p>Though many schemes for export firms and particularly in the handloom and textile policy exist, the case study firms and broadly across the survey did not mention many such schemes as being particularly beneficial to them, or have contributed to their market development or promotional efforts.</p> <p>Repeated questions were asked about the external or policy related sources of rent, but it could be inferred that even though such schemes exist on paper, and are promoted continuously in the national textile policy releases few of these have failed to find favor with the community that matters.- the exporting community.</p> <p>The Kannur handlooms received the GI (Geographical Indication) status in the latter half of 2010. It recognized the predominance of the region in the home</p>

	<p>Some of the schemes directed towards this community were</p> <ol style="list-style-type: none"> <li>1. Handloom village- an initiative of the central Government- a Model village showing development or evolution of traditional handloom. A historical relation of the clusters birth, evolution and present status. Benefits were twofold:             <ol style="list-style-type: none"> <li>a. Source of revenue for government if well maintained as a heritage tourism initiative.</li> <li>b. Enables the traditional craft to be well preserved and propagated. (M6)</li> </ol> </li> <li>The firm offered the state government the land requirement for the same from own land holdings but was not approved by state level machinery. (M6)</li> <li>2. Urban Haats – this is a scheme of the Central Government- Directorate of handloom and handicrafts to provide retail space in towns or cities. It will be in the</li> </ol>	<p>furnishings and made ups product category.</p> <p>The question remains as to what extent this will benefit the export volumes from the region. The handloom Mark initiative of the Commissioner of Handlooms was developed to add value to the handloom based products that were produced by traditional handloom weavers in different parts of India. It is beneficial if the products are only hand woven. This is no longer the case in Kannur, which sources finished fabric from a combination of sources, of which power loom is increasing in importance. This means that the benefits of the 'handloom mark' cannot be used for exports from this cluster.</p>
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		<p>form of a bazaar- with cooperative societies, handloom producers and private producers of handlooms sell products, all handloom in orientation (m6)</p> <p>3. KRITIKA: aimed at individual weavers who were not organized into cooperatives but doing good production for exporters</p> <p>4. TANIMA scheme for weaving families, again a very important part of the cluster. Home workers have taken up immense amount of export based orders, but did not receive any governmental recognition of the same. (M6 )</p>	

## 6.6 Analysis of Sources of Governance

### 6.6.1 Data Array of Legislative Governance Within And Between Firms

Table 6.13: Data Array of Legislative Governance Within And Between Firms

FIRM H	FIRM M	FIRM S	INFERENCES
<p>Firm was SA 8000 certified by Italian certifying agency called RINA. It had significant weight among foreign buyers being certified by a foreign agency, and also for social accountability standards, fast becoming a must have for suppliers selling to bigger retailers.(H1)</p> <p>Company's certification enabled it to deal directly with buyers than through their agents, though these buyers had sourcing offices in supplier countries like India e.g. Crate and Barrel.(H2)</p>	<p>Firm was ISO9001:2000 Certified and certified by Der Norske Veritas (DNV) Netherlands during December 2001.</p> <p>It also has the approval of European Department Stores for the Eco labeling of its products.</p> <p>It contributed to increased trade and increased buyer confidence. This was for newer buyers. (M6)</p> <p>A regional standard was being followed called Business Social Compliance Initiative (BSCI). This was a standard set up by a group of</p>	<p>Firm specific standards are conducted in house on finished fabric. They are</p> <ol style="list-style-type: none"> <li>washing test</li> <li>rubbing test</li> <li>colour matching(S3)</li> </ol> <p>The firm's quality department handled all in-house quality management as well as buyer specified testing requirements. (S3)</p> <p>Quality certifications the firm has are DNV –ISO9001: 2000 and auditing for SA8000 equivalent standards for some buyers is done through the buyers' own departments or on buyer visits or through auditors appointed by them.</p>	<p>Legislative governance measures like buyers flying down to factories for new sample development, ensuring product quality and process standards seen. Complexity of product high, risk of failure high as is a fashion product. Strong faith in suppliers' capability, especially down the chain. Executive governance done. Not much indication of judicial governance or penalties for non conformance</p> <p>Indicative of a regionalization of trade. Supplying firms would have to keep up with regional standards as trade becomes concentrated in these regions.(M6)</p> <p>New buyers are influenced by SA standards being implemented and want to see how. It means costs for firm increase. But this is made up by the segment the firm is in. (high</p>

<p>Certified by buyers (visit to factory) or their representatives.(H1)</p> <p>Secondary suppliers of the company had an advantage because according to the ethical trade initiatives primary producers should also share and benefit from business of the firm. Social security and welfare measures should be extended to them. SA certification interviews involve speaking to second tier suppliers and evaluating the extent to which firm benefits filter down to producers. The claims of the company were cross checked with lower levels of producers (H7)</p> <p>Legislative governance measures that were firm specific were strictly followed especially for the premium segment buyers.</p> <p>a. Inspection was carried out</p>	<p>EU based countries. Once the supplier met certain stringent standards they could register themselves as members of the BSCI initiative with an online membership that prospective buyers could see on their website and be assured of a certain basic quality.</p> <p>Top 220 European companies were members of this initiative. The suppliers were assessed by SGS, and RINA, Italy. (M6), (M9)</p> <p>Broadly standards of two types:</p> <ol style="list-style-type: none"> <li>1, Management standards ISO or SA standards. RAP standards for US market.</li> <li>2. Product specific standards e.g. AZO free dyes or REACH standards. (M9)</li> </ol> <p>For different products, mandates for particular</p>	<p>Large retailers like Marks &amp; Spencers, IKEA had surprise visits to the factory, to ensure that SA 8000 based standards were being followed. (S3)</p> <p>Legislative governance down the chain was seen in the way in which the firm monitored their outsourced fabric conversion with secondary suppliers in the cluster. Before the yarn was picked up by the secondary weaver information about the fabric weaving details like picks per inch, reed picks, defects allowable per meter, colour matching and weaving density was specified in very clear terms by written instructions, and approved (signed ) by secondary producer. (S7)</p> <p>Up the chain also, within the supplier firm also, the fabric, stitching, packing regulations dyeing etc specified on a product to product basis. (as per buyers</p>	<p>medium to low premium)(H1)</p> <p>Encouraging workers to unionise or form associations within factory premises, was one of the clauses of the SA 8000 Standards that many factories could not take up.(M6)</p> <p>An important aspect that needs to be considered in relation to the debate on governance is why do global buyers go into the trouble and expense of monitoring and supervising international supply chains? They develop arrangements with specific suppliers and take pains to ensure that products so manufactured meet specified parameters. These parameters may be specified under the following conditions:</p> <p>a. <i>Product definition:</i> buyer specifies the product when they have a better understanding of the demands of the market than the supplier. This is seen especially when the buyer uses product development as part of its competitive strategy. The greater the product definition, especially through design and branding, greater is the need to provide the supplier with precise product specification and to monitor that these</p>
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<p>at every stage of product development. During the time when the suggested production centers were decided, approval of the second tier suppliers was obtained on a written form regarding the company requirements about quality of their output.</p> <p>b. Before start of production a 'cotton meter' was woven by the second tier producer to check weaving quality , number of defects, color matching, design perfection etc</p> <p>c. This was also approved by the buyers by couriering it to them.</p> <p>d. Once production started quality inspectors of the company visited the production sites within Kannur on alternate days</p>	<p>attributes were set for that product at different levels, depending upon its level of quality or price offering.</p> <p>Attributes like light fastness, colour fastness, shrinkage etc had different levels depending on the quality level. Different levels needed to be followed for different categories of buyers in different product classes.(M9)</p> <p>Through the BSC I initiative, it was possible for prospective buyers to view factory interiors and consider the supplier capabilities.</p> <p>It had been helpful to get new buyers. (M6)</p> <p>A problem was that though these regional standards were established by industrial consortia, there was very little effort on their part to enable suppliers to follow</p>	<p>instructions) and ensured by supervisors with 100% quality checking.(S7)</p> <p>Product related standards:</p> <p>Specified in production were</p> <ol style="list-style-type: none"> <li>1. British Retail Standards specifying fire retardancy requirements for cushion filling and upholstery</li> <li>2. Dyeing standards – AZO dyes are banned in EU countries. AZO free dyes and chemicals are specified.</li> <li>3. Reach standards for EU based buyers. From 2009 this has been implemented.</li> </ol> <p>Generally standards are specified for buyers for both product and process. For Japanese buyers, a Japanese GIS standard is specified. For others EU, US buyers, ISO standards are basic requirement. These are at three levels- high, medium and low.</p>	<p>specifications are met.</p> <p>Sturgeon (2000) has specified product definition to encompass processes of interpreting market demands, creating product concepts and translating these into designs and drawings. It refers to research and development activities in developing new products and also design and marketing of these products.</p> <p>b. <i>Losses from suppliers' failure</i>: the needs that modern markets have with regard to fulfilling of conditions relate to factors like quality, response time and reliability of delivery, together with increasing concerns about safety and standards.</p> <p>Keesing and Lal (1992) have described the problems that developing countries face when trying to export for the first time. Their domestic markets may not have any of the requirements that foreign markets have and so they need to be helped in meeting export market requirements</p> <p>The question that is of interest to the study is :          "Does the up grading prospects of clusters of local enterprises differ according to the type</p>
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<p>and travelled to out of state production locations on a weekly basis. (H5)</p> <p>Down the value chain legislative governance standards are ensured among secondary producers by a network of quality control staff of company. They coordinate work at different locations- at cooperatives and power looms both within and out of the cluster – at three levels (H2)</p> <p>The levels or times of control are, before the start of production, during the production process, and finally before packing of final product.</p> <p>Helps production management, timely delivery, clears doubts, ensures quality parameters met at producer sites (H2)</p> <p>Buyers visiting factory for design development and new</p>	<p>these standards (M9)</p> <p>In reality buyers themselves demanded lower prices and withheld any volume considerations or price support to their suppliers (M9)</p> <p>Firm enforces its own legislative governance by having own laboratory facility for testing product and ensuring colour matching(M5)</p> <p>Firms own legislative standards set by a body of standards for each product that it maintains- these may be specific to each product class wise or category wise. It denotes AQL (average quality levels) e.g. 2/100 (M9)</p> <p>Textiles Committee (TC)</p>	<p>Though the process standards specified are same, different buyers specify levels depending on product categories, and segment to which product will be sold/ or retail establishment.(S9)</p> <p>Standards like ISO 6330 OR ISO 3575 commonly used. For larger retailers usually 30% of total value of sales is caught up in indirect costs related to standards and testing. Suppliers also suffered the effects as they too had to test.</p> <p>Each product class of the company has a specified set of standards- a minimum quality level maintained.(S9)</p> <p>Firm specific standards are conducted in house on finished fabric. They are</p> <ol style="list-style-type: none"> <li>washing test</li> <li>rubbing test</li> <li>colour matching(S3)</li> </ol>	<p>of global value chain they feed into?" this forms the central theme of Humphrey and Schimtz (2003).</p> <p>They seek to understand what upgrading implications arise from the different types of chain governance.</p> <p>In the study, the researcher has not explored the cluster related aspects of the firms preferring to examine the case based evidence in its individual settings- evidence from case study firms.</p> <p>Governance originating outside the chain seen as testing done by third party firms.</p> <p>Laboratories interact with buyer only.</p> <p>Governance by country or regional standards seen (H9)</p> <p>Though the firms are located in a district of Kerala, that has the highest concentration of home furnishing industries in Kerala, the exact nature of this industrial agglomeration needs to be assessed before deciding whether it qualifies as a cluster, a network or an industrial district.</p> <p>To avoid confusion related to this terminology case study firms were studied</p>
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<p>samples or seasonal releases look for clean factory environment. Also check for SA standards being implemented since this is a key benefit the firm has (H4)</p> <p>Regional or country standards like British Retail Chain (BS) standards (H9). Testing done by 3<sup>rd</sup> party laboratories like Inter tech at their premises.</p> <p>The use of ETI (Ethical Trade Initiatives) or Fair Trade Practices is important to some buyers. These product and process standard are important to high value market. High end or premium retailers sell products at higher unit prices like 80-100 pounds instead of the normal rates of 20-40 pounds. These retailers use ETI measures as a distinguishing factor for their products, signifying that the benefits of purchasing their product goes</p>	<p>laboratory used for some tests.</p> <p>Use of third party testing firms like SGS, Intertech etc by buyers. They tested the products in their own labs on behalf of buyers. These were notified to the exporters and sent directly to buyers. They were done by buyer for verification of supplier claims. (M5)</p> <p>SA standards were being considered by many suppliers, but the clause regarding the formation of workers unions or representations inside the factory made suppliers wary. (M6)</p> <p>What prevented firms from going forward was a clause that required the company to encourage the formation of unions or associations within the firm that firms found</p>	<p>The firm was trying to improve its working conditions and wages so as to attract the workers. This pool was constantly falling pool of workers. This pool was constantly shifting between firms, influenced by wages, and work. So firm was trying to increase it's within firm conditions so as to increase its bargaining power.</p> <p>The firm's quality department handled all in house quality management as well as buyer specified testing requirements. (S3), (S7)</p> <p>Some of the tests specified by buyers were done at factory premise, and some were in the Textiles Committees laboratory located in the city. Some buyers emphasized the use of specified laboratories or third party testing facilities to carry out testing. (S7)</p>	<p>individually though the other theoretical possibilities will be briefly addressed as rival theories.</p> <p>In examining case data it is seen that</p> <ol style="list-style-type: none"> <li>1. All firms have been involved in exporting for periods ranging from forty five to twenty five years and are not first time exporters or even latecomer firms' (Hobday 1995:34)</li> <li>2. All three cases exhibit high levels of legislative governance manifested through the proliferation of standards.</li> </ol> <p>Nadvi and Waltring (2002, Ch 3) from Messner (2003) categorize the great number of existing standards with the objective of outlining trends for policy.</p> <ol style="list-style-type: none"> <li>1. Emergence of new <i>global standards</i> is increasingly driven by private actors like NGOs and corporations</li> <li>2. In recent years a number of industries and business networks have developed <i>industry specific or company specific</i> social, labour, child protection or environmental standards. These are</li> </ol>
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<p>back to the communities in which they were made. (H10)</p> <p>The purchase order signed by the buyers was the basis for judging all instructions regarding the product. Very specific instructions were given regarding requirements of product quality, tests to be carried out and certification to be followed. (H10)</p> <p>Though firm had approved standards buyer's requirement of quality, taken as basis to judge what quality required for product. Strong interaction with buyer. Retailer type, store standards also considered (H9)</p> <p>Fair trade initiatives are at two levels</p> <p>a. Working standards: the firm follows SA Standards</p> <p>b. Authenticity of organic label</p>	<p>unable to allow.</p> <p>In the area of fair trade practices a key requirement was to ensure that workers or the lower / less visible participants like home workers and unorganized labor had a fair chance of expressing their needs too. This meant that there had to be records of their involvement in the deliberation or discussion with the management to better or improve their living conditions.</p> <p>Very few firms felt able to encourage workers to unionize or to form associations given that in Kerala, and particularly in Kannur, workers historically pursued and encouraged political activism.</p> <p>It was preventing firms from</p>	<p>Testing was not only to ensure that firms followed rules but between companies, especially big retail groups, a great deal of competition was there, and firms needed to protect themselves from other firms or watchdog firms highlighting their flaws. This could lead to companies penalizing vendors causing them to lose the order altogether. (S7)</p> <p>It was rare that firms or retail chains had any genuine interest in workers but feared public backlash in the event of non conformance.</p> <p>IKEA, H&amp;M, Habitat etc are firm having very stringent laws.</p> <p>For supplying firms in developing countries it was restrictive because of the cost of testing and certification. Up to Rs. 27,000 per item was charged. (S9). Sanctions and penalty for non conformance was very high.</p>	<p>monitored and certified by cooperation between concerned companies, NGOs, labour unions and consumer groups (Fuchs 2000, Blowfield 1999 and Hilowitz 1997 cited in Messner (2003).</p> <p>3. <i>Universal social standards</i> like SA 8000 and Ethical Trade Initiative/ ETI) has a worldwide or cross sectoral reach. ETI sets social labour standards, the reach of which is seen when the seven largest UK supermarket chains apply the ETI standards in their retail and production networks with African partners. These practices are monitored by independent institutions.</p> <p>4. Besides global standards oriented by pressure exerted by NGOs, standards have been created or actively promoted by corporations acting in their own interest. These may be</p> <p>a) <i>Binding standards</i>- hygiene standards in food industry that secures consumer confidence and increases their credibility and promotion of legitimacy.</p> <p>b) <i>Company specific social and</i></p>
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<p>through clarity of raw material source. Organic labeling has to done from farm gate, specifying the farm where the cotton is grown, the batch of product. Before this point the inputs to the farming process, seeds, manure and other growth supporting minerals or chemicals have to be of organic origin. Organic certification is given to the farmer which then has to be quoted as the cotton undergoes conversion to yarn etc. (H10)</p>	<p>being able to adopt SA standards. It was a legislative governance measure that many buyers preferred suppliers to have but firms in the region were not able to adopt them. It was usually the EU countries that insisted on such certification. As a result of this clause many supplying firms had not adopted these standards. Firm M also had not adopted the SA 8000 standards but tried to appeal to its European buyers by ascribing to the regional standard that was popular there. It was the BSCI standards. The firm was certified by RINA, Italy, for these standards. (M6)</p>	<p>Quality certifications: The firm had DNV certified ISO9000. The firm followed state government regulations for workers standards, and this was usually certified by individual buying firms' own departments or through auditors appointed by them. (S3), (S7)</p> <p>The government specified wages, allowance, DA and other criteria were taken as basis for certification. Legislative governance seen by government bodies carrying out periodic inspection and issuing certificates in recognition of these standards. (S7)</p> <p>Some judicial governance measures also seen by state government departments through the annual checks and reports generated about firms' labour and environment related</p>	<p><i>environmental standards</i> used as instruments to distinguish between competing firms. Examples of this are OTTO Versand and Karstadt, Levi Strauss and Sainsburys- which are certified by independent institutions.</p> <p>c) <i>Management systems</i> like ISO 9000 or ISO 14000 become quality labels which contribute to reducing control costs lead firms have and cut search costs needed to find new suppliers.</p> <p>Evidence of all three types of standards is seen in the case study firms, and a strong need to prevent supplier's mistakes or shortfalls in timing, delivery, quality or method of manufacture (with reference to the labour inputs), is seen. This means strong legislative governance measures but in different manifestations, characterize these firms.</p> <p>These requirements are seen for high value labels like Bill Brown, Nyblom Kollen, Sterck etc. These are firm customers (H10).</p> <p>10% of company sales are for organic cotton products with very high quality and product</p>
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	<p>stipulations. (S7)</p> <p>Large retailers like Marks &amp; Spencer's, IKEA had surprise visits to the factory; to ensure that SA based standards were being followed. (S3)</p> <p>Bigger buyers had stronger governance concerns usually specified by personal communication with suppliers.</p>	<p>consciousness. Very high final product costs. Increases prestige of firm but costs very high for firm. (H10)</p> <p>Firms felt cost of maintaining standards and carrying out testing borne only by firm. Not affordable if buyer support not there (H7)</p> <p>Initial one meter of product checked and verified for factors like weaving quality, number of defects, colour matching and design penetration. (H5)</p> <p>Photography samples, salesman samples done based on initial cotton meter(H2)</p> <p>Firm specific standards and buyer specified standards applied. Both process related and product specific standards.</p> <p>Internationally accepted ISO and SA standards also enforced. This is through supplier evaluation forms.(H6)</p>
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6.6.2 Data Array of Executive Governance Within and Between Firms

Table 6.14: Data Array of Executive Governance Within and Between Firms

FIRM H	FIRM M	FIRM S	INFERENCES
<p>ISO Certification and SA standards requirements done through classes conducted. Staff kept abreast of changes. SA standards taught by certifying agencies periodically till certification (H2)</p> <p>Hands on checking, advising, specifying of quality – helping secondary producers.(H2).</p> <p>Merchandisers dedicated to buyers-freedom to take quality based decisions with secondary producers.(H-2)</p> <p>Firm has more bargaining power and balanced relationship.(H2)</p> <p>ISO Certification and SA standards requirements done through classes (H2).</p>	<p>Three types of buyers associated with company.</p> <p>33% were top end stores with high quality consciousness. They focused on non tangible competencies of the buyer such as the ability to follow ethical trade initiatives and SA standards</p> <p>. For this class of buyers, the products must be of high quality and finish and the environment in which the products are produced – worker environments are monitored through governance initiatives.(M4)</p> <p>At every stage adherence to quality and proof of certification required. Records for the same were to be kept. Annual assessment and checking was done.</p>	<p>A point was that though buyers highlighted stringent worker standards, there was no cost support. No recognition of costs incurred for maintaining standards at required levels. These additional costs not incorporated into suppliers prices. So they were squeezed both ways. They had to maintain these standards without receiving pricing benefits for the same. (S7)</p> <p>The executive governance of buyers was substantial in the initial stages of sample development.</p> <p>Their presence in the factory at the time of planning for seasonal</p>	<p>According to the Handbook of value chain research, executive governance means the degree to which supplier firms are aided in maintenance of the legislative standards which lead firms or key buyers dictate.</p> <p>Humphrey and Schmitz (2002, 7) try to indicate what it is that is governed in global value chains by different forms of coordination and control. The three types of parameters that are defined by key buyers or dominant chain partners are:</p> <ul style="list-style-type: none"> <li>• <i>What is to be produced?</i> This gives clarity about the design of products, both in broad conception and detailed specifications.</li> <li>• <i>How is it to be produced?</i> This involves definitions of production processes- the technology to be used, the quality systems to follow, the labour standards and environmental standards that</li> </ul>

<p>Textiles Committee (organization within cluster) has a role in this. (H2).</p> <p>Credibility of organization suffered when it gave certificate of Handloom authenticity to non handloom products (in pre MFA era). (H2)</p> <p>Buyers work with firms key staff to stress buyer concerns, work methods, product requirements. also tires to convey work methods, quality requirements etc (H1)</p> <p>Buyers or their key personnel come to supplier premise to consider new products, weaves pass to the firm's quality supervisors and merchandisers attributes of quality, factors of importance, work methods, product checking and verifying, and their specific quality concerns.(H2)</p> <p>Joint defect handling-shared</p>	<p>Highly responsiveness to their requirement and quick action with no compromise on standards as they were exposed to third party governance by NGO and watchdog organizations. (M4)</p> <p>The regional and other standards though were pushed by lead firms or buying consortia, suppliers were never given any consideration in costs for establishing these standards. The measures the supplier needed to undertake to get these standards were costly. The costs of implementation was high but very little executive governance.(M9)</p> <p>It was causing producers to use low cost techniques to lower prices affecting their credibility. But this was because buyers were not compensating for measures supplier had to undertake to adopt these standards. (M9)</p> <p>Twenty percent of firms customer of very high standards –strict</p>	<p>releases, six months earlier was a support. Once samples were approved and confirmed, however, they expected that the standards they expected for their products will be implemented by suppliers. Checking may be done by firms themselves though rarely to ensure enforcements. Some firms use agents to make checks against standards. (S7)</p> <p>Training or educative practices regarding quality standards never provided by buyers. Cluster based agents like TC or certifying agencies, have conducted classes for firms before certification. (S7)</p> <p>What were factors or areas discussed during the buyer's visit to the suppliers premises?</p> <p>This centered on the following activities or areas. The contribution of each party to the</p>	<p>should be followed.</p> <ul style="list-style-type: none"> <li>• <i>Physical product flow</i>: how much is to be produced and how the flow of product down the chain is to be handled.</li> </ul> <p>The extent to which these aspects are detailed and specified by lead firm or buyers (within and between chains participants determine where in the continuum of market structures (arms length to hierarchy) the firm lies.</p> <p>The information intensive design development relationship with buyer on the suppliers premise for extended periods (ten days to two weeks ) engaged in the detailed process of setting specifications and costing for next seasons releases was seen to be the norm among case firms.</p> <p>They are engaged in the detailed processes of setting specification and costing for next season's releases. A reciprocal dependence is clearly seen. The buyer is confident about the supplier's knowledge base and ability to create products. This is considered as important. This is manifested in the length of the supplier relationship with them.</p>
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<p>responsibility with secondary producers. Not adversarial. Done through inspection at every stage, mandatory forms to be filled, inspection formats up to finished product inspection.(H6)</p> <p>Firm specific and cluster specific executive and judicial governance by firm. Constantly work to increase the quality of their suppliers, correcting defects, ensuring delivery, technical advice and finally rejecting product if not conforming to specification, or if colour matching not 100%.</p> <p>(H2)</p> <p>Evaluation of secondary suppliers checked at several points. These are:</p> <ol style="list-style-type: none"> <li>1. Quality in terms of defects- picks per inch, knots per inch, broken ends etc</li> </ol>	<p>adherence enabled through</p> <ol style="list-style-type: none"> <li>1. Sealer Approved Sample- the first or initial product produced according to buyer specification is sent to buyer or laboratory indicated by buyer. Lab results sent to buyer who then gives approval to supplier. This is called 'seal of approval' (M9)</li> <li>2. Online inspection. This is usually done by buyer's representative. The agents play a key role in examining the company operations at three phases- the initial activity (production line start, specifications to be met before start etc.), online inspection on the assembly line, and final product inspection from the master cartons. Usually this is done by buyer personnel.(M9)</li> </ol> <p>ISO customer evaluation and</p>	<p>finally developed product was discussed. Buyers visited the factory for developing products or seasonal releases six months hence. The planning for the new releases was done six to eight months earlier.</p> <ol style="list-style-type: none"> <li>1) Discussion of colours the seasonal combinations to be used. This is contributed by buyer as they had knowledge of the forecasted season's colours.</li> <li>2) Product form/shape – Types of product. What fabric is possible, what variations can be done, the fabric construction, costing possibilities etc. the supplying company contributes this information..</li> <li>3) Fabric design- The engineering and technology aspects. Whether dobby or jacquard- whether to print,</li> </ol>	<p>Staff dedicated to key buyers-constant link and updated by buyer demands.</p> <p>A cursory examination of the way in which buyers and their suppliers interacted in the suppliers premise and the details that were discussed between them, for firm H and firm S shows that their interaction covered not only what needed to be produced (for next seasons releases) but aspects of fabric design and construction, its costing and colours to be chosen. The second aspect of 'how it is to be produced' in terms of defining the production process – is not taken up by the buyer.</p> <p>This aspect is taken care of by the supplier's facilities, either in house, within the cluster or out of state sourcing and manufacturing network. The required quality standards and product parameters are accepted as a precondition.</p> <p>Aspects about how much to be produced, the regularity and volume of orders and the schedules for shipment, inspections and delivery are clearly discussed during the buyer visits.</p> <p>Closer to the shipment times, it is accepted</p>
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<p>2. Colour matching –to be 100%</p> <p>3. Bit sample approval</p> <p>4. Production sample approval</p> <p>5. Maintaining delivery time</p> <p>6. Price acceptability (H6)</p> <p>Bit sample- approved before production started.</p> <p>Production sample: after the ‘cotton meter’ woven, sent to buyer for approval.</p> <p>Production process: before production firm H personnel discuss production and quality issues, loom readiness, preparation of warp, dyeing strengths, design punching, loom variations or fittings to be incorporated onto loom.</p> <p>Time adherence: delivery times and schedules must be maintained especially for fashion/season based</p>	<p>rating sheet for the supplier (firm M) was annually sent by mail or fax to the buyers of the firm, to be filled up. About thirty to forty percent replied. These details were filled in by companies or their contact staff.</p> <p>Firm was assessed for four criteria and weights given.</p> <ol style="list-style-type: none"> <li>1. communication 15</li> <li>2. delivery 30</li> <li>3. quality 35</li> <li>4. response follow up 20</li> </ol> <p>The available records with the latest assessments from buyers were shown to the researcher. As from records of 27 buyers 11 responded and 16 are still giving orders. From records the result was:-</p> <p>Delighted customers- 3</p> <p>Happy customers- 5</p> <p>Satisfied customers- 3</p>	<p>the costing etc.</p> <p>4) Construction – The yarn counts- picks per inch (PPI) and picks per centimeter (PPC) are all specified by the buyer and contributed by both firms. Seventy five percent is contributed by firm S for 3) and 4)</p> <p>Rapport building between producers and buyer is enabled through this conducive environment.</p> <p>Maximum facilities and maximum number of options are to be provided to buyer.</p> <p>This makes the executive governance process easier.</p> <p>Discussions about raw material availability, costing, discussion with designers – combined meetings are held with personnel from both sides.</p> <p>Suppliers and buyers’ staff</p>	<p>that suppliers will handle the additional duties related to inspections, freight management and the logistics till the entry port, which is the case. These aspects are never discussed during the buyer visit, as they are confident that supplier can handle these details.</p> <p>The buyer visit to the factory is clearly only for design development, sample manufacture and costing. The buyer expects quick sample development and cost analysis. They want to see how well suppliers can convert their design into finished products.</p> <p>Executive governance within the chain (through buyers) seen. A supportive mechanism where buyer’s involvement in implementing needed quality norms is seen. This involvement is seen down the chain (with secondary suppliers also)</p> <p>Executive governance down the chain, with secondary suppliers seen not originating from lead firms or key buyers but as firm’s own quality improvement initiatives, aided by cluster participants (Textiles Committee) and specialized firms (external to chain) (H1)</p>
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<p>merchandise. Price: not aggressive or cost based pricing. But acceptable to both parties.(H6) Product and process standards implemented by firm on 2'suppliers strong and without compromise. (H3)</p>	<p>To be satisfied- 0</p>	<p>discusses and ensure do ability of the order. Buyer's staff is usually designers purchase staff of the company.</p>	<p>Firms often expected to implement standards with no benefits on prices received. Mass market retailers are not a preferred customer group for firm or region. They used agents to enforce standards at their suppliers. Most buyers in cluster worked directly with firm, not through agents. This shows a greater trust, length of association, and informality (H7) In examining the case related data it is seen that all the firms are 'driven by design'. Innovativeness of product is a must-have criterion that buyers insist upon. This may be because 1. The buyers deal in <i>highly differentiated product categories</i>. Home based products in a fashion or seasonality infused industry. 2. Strong retail branding requires generation of products for <i>specific needs</i> like promotional samples, trade fair samples, window dressing or visual merchandising and photography samples. This is to</p>
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<p>advertise next season releases and to examine their order generation potential.</p>	<p>3. This necessitates <i>small lots, frequent orders and customization of batches</i> of products. This is enabled by the nature of work organization in the firms.</p>	<p>4. The <i>strong commitment</i> to new sample development for the next season is a source of rent.</p>	<p>Buyers' input is seen in aspects of design, but this is not to say that suppliers are only design takers –their <i>contribution to design development</i> is seen in all three cases. Buyers are not seen to specify production processes to be used but are particular about the quality systems, labour and environmental standards supplying firms ascribe to.</p>

## 6.6.3 Data Array of Judicial Governance Within And Between Firms

Table 6.15: Data Array of Judicial Governance Within And Between Firms

FIRM H	FIRM M	FIRM S	INFERENCES
<p>ISO 9000-9001 and SA 8000 strictly adhered to especially at second tier producers' level. Stringent buyer standards passed on to secondary producers. If the woven product did not meet the firm's specification, they reserved the right to summarily reject the product if not passed for quality by their inward quality inspectors.(H2)</p> <p>Unlike volume buyers like IKEA, firm dealt with less volume and variable orders. Punitive action, lead firm like 'directives' absent for the segment they dealt in. (H2)</p> <p>ISO standards require assessment on yearly basis of delivery, quality of product, response time, and delivery</p>	<p>Regarding stringency of the governance measures firm felt that</p> <ol style="list-style-type: none"> <li>50% of shipments were to buyers who were happy to accept quality levels maintained by supplier. They were satisfied with inbuilt quality levels or firm level standards.</li> <li>30% was of very high quality standards- suppliers needed to meet high standards and enable latest techniques of quality. (enhancements like eco labeling, organic certification etc)</li> <li>20% of high quality levels, maintained by very strict standards e.g. high end mail order catalogue companies like Otto Heime who had a promise</li> </ol>	<p>Bigger buyers had stronger governance concerns, for more reputed, branded buyers this was a concern. Usually specified through personal communication with supplier.</p> <p>Buyers or their representatives may come unannounced to check overtime records, attendance registers, wages, and benefits without prior knowledge. Some what stringent checking done. (S7)</p> <p>This kind of control and enforcement was increasingly becoming the norm.</p> <p>Judicial governances was enforced through different ways(S9)</p> <ol style="list-style-type: none"> <li>Through laboratories nominated by buyers like SGS, Intertech, etc they must carry out sample testing for the buyer. Supplier is</li> </ol>	<p>Judicial governance is seen to be expressed strongly down the chain.</p> <p>Lead firm like buyers characteristic of apparel commodity chains are not buyers. More executive governance, with buyers visiting suppliers, sharing knowledge, using supplier capabilities, and lifting their product knowledge and application skills.(H2)</p> <p>As SA standards implemented by foreign certification agency, checking and ensuring that the standards were implemented was rigorously done. Few firms in cluster could maintain SA standards because of</p> <ol style="list-style-type: none"> <li>costs of implementation (salary higher, worker records thorough)</li> <li>strong pro-worker terms</li> <li>emphasis on unionization or worker associations within firm (H7)</li> </ol>



<p>accuracy. Supplier evaluation done by buyers yearly. Continuous improvement goals(H2)</p> <p>SA 8000 standards implementation checked at secondary suppliers' level since this was a labour or welfare standard.</p> <p>Buyer representatives speak to them and carry out certification interviews with them to evaluate whether firm is truly attending to their welfare. (H7)</p> <p>The government or state based judicial governance was seen in the yearly inspections of factory premises by official correspondences and visits.</p> <p>These were both factory infrastructure based controls, worker welfare and wage related and environment related. Governmental legislative control for labor included aspects like</p>	<p>of quality to their Customers.(M1)</p> <p>4. For this group the quality was enforced by the use of:</p> <ol style="list-style-type: none"> <li>1. Sealer approved sample- first or initial products produced according to specifications sent to buyer or laboratory indicated by buyer for testing. These are labs like SGS or Intertech. The results are sent to the buyer who then gives approval. This is called a seal of approval.</li> <li>2. Online inspection- this is done by buyer representative. Agents play a key role here examining quality maintenance at three phases. The initial activity at the start of the production line. Ensuring specifications are met before the start, online inspection on the assembly line and final product inspection from the master carton.</li> </ol>	<p>asked to send a sample to the approved lab and it is tested for specific parameters. Test results are sent directly to the buyer and copy to supplier. Only once approved by lab is company able to confirm production or get approved to start production</p> <ol style="list-style-type: none"> <li>2. Online inspection at supplier's site. The buyer specifies minimum order quantities for that order. Physical inspection done by buyers own team</li> <li>3. Physical inspection done by nominated agencies before dispatch. Just before dispatch, SGS, BVD, TC, these organizations many inspect goods and only then dispatched. (SS)</li> <li>4. Buyer's agents are utilized by buyers to carry out inspection for them. Usually done 3 times or at 3 intervals during the process of order fulfillment./ a) first inspection to check order</li> </ol>	<p>A barrier to more firms adopting these buyer specified standards, and a source of rent for firm H</p> <p>Building competitiveness no longer means meeting price requirements or on time quality criteria. It means having to meet or even influence diverse standards that intervene profoundly in the production processes and local or social conditions the firm works in.</p> <p>This puts enormous pressure on suppliers' firms to keep up with these diverse standards and making investments in this. This is not supported in any way by buying firms who insist on these criteria. (Messner, 2004 )</p> <p>Case study firms were unanimous in their recognition of this lack of support – saying that buyers need for products and factories of suppliers to meet standards was not binding for them in any way. Insistence on adherence to a standard was not accompanied by price support or any other executive governance related actions on their part.</p>
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<p>Welfare fund, PF, ESI, Factories Act, Health and Safety, Minimum Wages, (S9)</p> <p>Working Conditions etc. the Pollution control board also carried out yearly checks.(H9)</p> <p>These needed to be maintained to suit the state based regulations. Officials were not genuinely concerned with standards maintenance, but it was a yearly procedure.</p> <p>In describing production process standards the firm controls were implemented at up to nine points:</p> <ol style="list-style-type: none"> <li>1. Before start of production.</li> <li>2. After first meter (cotton meter) produced.</li> <li>3. After regular production starts, biweekly checks.</li> <li>4. Once weaving complete, before accepting entry into stores, defects noted foot by foot. Only after clearing</li> </ol>	<p>Technology for testing of fabric was available in house. They had a basic laboratory facility for the same.</p> <p>100% colour matching and shrinkage testing was done in house. (M5)</p> <p>The Textiles committee laboratory was used if buyer demanded specific tests. (M5)</p>	<p>processing, the timing and sequence of processes. b) middle line inspection to check production line, stitching, coordination etc c) final inspection done before dispatch</p> <p>5. A recent development has been judicial governance exerted through buyer nominated shipping agencies. These are the shipping and forwarding agencies (liners) who also take up customs clearance, documentation needs of buyers for a fee. Buyers are able to transfer their costs to seller. As suppliers are charged fees by these nominated agencies for their compliance checks – at rates much higher than if supplier appointed their own freight forwarders. In short these liner services were being used by bigger retailers to transfer their costs. Sears was a company that used this method. (S9)</p>	<p>This was becoming the norm for newer buyers that firms took up and was making the terms of trade difficult for suppliers.</p> <p>Governance measures internal to firm are very strong with quality checking at 5 or 6 points.</p> <p>End use of product decided quality standards to be used. Product related specifications like fabric counts, count by weight, dyeing and colour fastness etc used (H9)</p> <p>As buyers become up market or exclusive quality requirements rise.</p> <p>Before actual production and after sample specifications set, buyer approval is obtained. This piece (1 meter) becomes the reference for similar weaves or further orders of the same type or for modifications thereof. Codified and confidentially stored in firm's sample record rooms. (H9)</p>
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<p>with 2 supplier, accepted.</p> <p>5. After being sent for treatments or finished fabric processing on receipt, second quality check.</p> <p>6. If made ups sent for stitching, then before receiving finished goods.</p> <p>7. After final packing, labeling and boxing, checked for quality.</p> <p>Six points of process control. Firm level governance.(H10)</p> <p>Firm able to ensure that such variety of production sources (handloom, individual weavers, power looms in cluster, power looms in Tamil Nadu) do not affect ability to ensure consistent quality. This is through sound governance- firm level, product specific standards and sometimes buyer specific, but mostly internal firm generated controls.</p>	<p>A further source of judicial governance was through governmental agencies at state level. They carried out yearly inspections of factory premises by official correspondences and visits. These were both factory infrastructure based controls, worker welfare and wage related and environment related. Governmental legislative control for labor included aspects like Welfare fund, PF, ESI, Factories Act, Health and Safety, Minimum Wages, (S9)</p> <p>Working Conditions etc. the Pollution control board also carried out yearly checks. (S9)</p>	
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## 6.6.4 Trust Based Implementation of Governance

Table 6.16: Data Array of Trust Based Implementation of Governance

FIRM H	FIRM M	FIRM S	INFERENCES
<p>Length of buyer relationships from 1987 (H2)</p> <p>Informal communication at many levels with key buyers. Design staff, purchase departments communicates with many levels of supplier firm and with second tier suppliers (H3)</p> <p>Non hierarchical and non adversarial (H2)</p> <p>Use of ICT for communication at many levels.</p> <p>Use of phone fax and mail, for order placement and continuation. (H3)</p> <p>No limits on finding new buyers, no restriction on developing new relation. 1-2 fairs attended every year.</p> <p>Newer buyers obtained by referrals from earlier buyers (H3)</p> <p>Despite not having SA standards many firms did not suffer a loss of orders on account of this. (The recessionary fall in orders was there). This may have been because</p> <p>a) Long term business linkages. Trust</p>	<p>Once the preferential duty tariffs went away after the MFA, Kannur was faced with high price consciousness for buyers. It became a key variable in the marketing mix given a global emphasis towards low cost product, scale productions and value based offerings- the USPs of large value based, discount oriented breed of retailers.(M2)</p> <p>Led to heightened competition from Karur cluster which was also a furnishing hub (power loom. Between 1985- 1995 buyers started preferring power loom because of the cost factor. (M2)</p> <p>It led to many Kannur</p>	<p>Some of the greatest learning for the firm has come from the strong buyer linkages. In 1999 Japanese retail chain was introduced to them in a fair, with which they developed a strong relationship. It was this buyer that introduced concepts of TQM and Kan Ban into the operations of firm. (S5)</p> <p>Took it as a personal responsibility to develop quality management practices in the firm. Methods, operational procedures, streamlined to TQM principles. Not only for their products but for all products manufactured by firm.</p> <p>The buyer stayed on the factory premise for six months, giving personal attention at each stage, pre loom activity, finishing, weaving etc. building construction</p>	<p>Lead firm like dominance of buyer not evident in firm.</p> <p>Extent of information sharing high, and order fulfillment capabilities of supplier, well acknowledged by buyer.</p> <p>Lessening of risk seen in buyers visit to factory and stay, during product development phases, giving maximum inputs to ensure product and process meets high expectation of buyer segment.</p> <p>Link with cooperative producers' vertically integrated, exclusive producer of fabrics, and product development facility for firm.</p> <p>This is possible because of</p>

<p>based on length of relationship.</p> <p>b) Personal meetings at fairs. Strong buyer involvement in product development made standards a secondary concern (H7)</p> <p>Focus of company on buyer loyalty, ethics and consistency of orders (H3). Firm has bargaining power with buyer. With secondary suppliers higher bargaining power.</p> <p>Trust with firm H suppliers (cooperatives) very strong, confidential, collaborating, cooperating and mutually supportive. Acts like an extension of company. Backward integration(H5)</p> <p>Benefits of price passed down to 2'tier suppliers as</p> <p>More bargaining power for company as price competitiveness not key buyer need. Non tangible attributes like quality and finish, design adaptability selling attributes. (H5)</p> <p>Trust also seen in the symmetry of relations</p> <p>1. Buyers do not have many suppliers at the same level, making similar products. Indicated by the time and money spent in visiting suppliers, discussing sample</p>	<p>exporters make products in that cluster, to get the lower cost of production. This had a detrimental effect on trust relations in the value chain of the cluster.(M2)</p> <ol style="list-style-type: none"> <li>1. Inter firm relations suffered.</li> <li>2. Network of handloom cooperatives and individual weavers who operated within the cluster suffered a beating.</li> <li>3. Buyers no longer insisted on hand weaving so the firms involved in producing genuinely hand woven products from the cluster itself suffered.</li> <li>4. Between exporters trust fell. The older generations of firms who did not carry out such unethical practice was faced with crumbling market share</li> </ol>	<p>also considering worker's safety. The trust relationship was responsible for this. (S5)</p> <p>The firm S was planning to enter into an own brand manufacturing strategy (OBM), from a branding for others and branding for retail strategy. This was because of the huge production capacity the firm had invested in (high speed rapier looms). It found that large production was possible unlike most of the region's firms. (S5)</p> <p>The firm planned an entry into EU markets on the basis of strong support from its German buyer, a large importer distributor. Who was willing to distribute product in the German markets and from there to EU markets. This was on the basis of the strong trust between the buyer and firm. It was also based on a belief in the ability of the firm to produce quality suitable to the foreign markets.</p> <p>Design support was to be provided</p>	<p>strong buyer patronage. This is unusual for cooperative establishments. But both supplier and 2 tier linkage able to benefit from association</p> <p>Cooperatives doing business with firm were appreciative of prices that firm H gave for their weaving works.</p> <p>Triangulated with evidence from them.(H6)</p>
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<p>development and specifying new products to be developed for next season.</p> <ol style="list-style-type: none"> <li>Buyers risk in event of supplier failure high. This explains the increased investment in supplier capability development.</li> <li>Volumes dealt with are low and not mass market volumes. High variability and more risk to buyer in event of product failure, so a close supplier relationship is necessary.</li> <li>High rivalry among buyers in the same category- who many deal with similar volumes and customers. Design development exclusive and confidential. Highly guarded and protected releases for next seasons.</li> <li>Buyer relies on supplier capability to deliver quality and finish, as well as to produce complex codified designs. suppliers have not been changed for inability to deliver.(H6)</li> </ol>	<p>when newer generation firms did, without a thought for the social linkages or cluster based strengths</p> <p>Length of trading relationship with some of the key buyers from 1987-88. Owing to the starting of the company much earlier from 1968 onwards the company had been in the business of exports. (M8)</p> <p>Around 10 firms have been in an ongoing relationship with the company from 1968 onwards. They were constantly buying products from the firm. Had strong quality consideration (M7)</p> <p>66% or 2/3rd of buyers had a direct relationship to the supplier. Not through representatives or agents. They saw each other regularly in fairs and interacted with each other.</p>	<p>by the German buyer linkages.(S5)</p> <p>With regard to functional upgrading, the firm has taken up reordering and tailored sourcing for a Japanese buyer. This was one of its oldest buyers, and was based on the high degree of trust and length of relationship.(S5)</p> <p>The buyer passed back sales figures on a weekly basis to the supplier. Based on this the next batch of products was sent. The firm was able to forecast colour requirements based on the learning they received from dealing with the Japanese market. It was not commonly done with buyers. Only because of the relationship's strength, the sales or demand estimates were passed down. (S5)</p>
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**6.7 Analysis of Types of Upgrading**  
**6.7.1 Data Array of Process Upgrading Within and Between Firms**  
**6.7.1.1 Within Links**

**Table 6.17: Data Array of Process Upgrading Within Links**

FIRM H	FIRM M	FIRM S	INFERENCES
<p>Use of firm agent in buyer markets- fashion designers working on commission to get approval for designs developed within firm (H3).</p> <p>Able to market firm's own design on designer's recommendation</p> <p>QC staff and cooperatives confidentially developed designs suggested by 'mood boards' or staff of buying firms. Sent to buyer for approvals H2)</p> <p>Inspection at every stage of product development by firm staff. Decision of which producer is taken by quality</p>	<p>Latest improvement in technology was in 2000- at this time some changes in post weaving processes, like cutting machines, stitching machines were installed. Needle detector machines were installed also.</p> <p>Kier drying instead of air drying was installed. This was important equipment especially in the monsoon when air drying was difficult.</p> <p>Some of the early improvements in 1995, when the present owner</p>	<p>In 1985 focus of firm was to be a good exporter. By late 2000 its needs had evolved. It was focused towards greater value generation. (S5)</p> <p>Own brand development or manufacture, was a key area the firm wanted to venture into. The reason was that it had invested heavily in capacity building, and had the production and finishing set up to cater to very large demand. (S5)</p> <p>Upgrading also seen by the investment of the firm in huge, state of the art rapier loom production unit, causing vast increase in capacity as well as in</p>	<p>It was Gereffi (1999: 41) who described the key feature of the current phase of globalization as "the functional integration and coordination of internationally dispersed activities".</p> <p>Humphrey and Schmitz (2003) credit Gereffi (1999) with the establishment of two central propositions. He stated that trade in developed countries is increasingly coordinated by global buyers, and developing country producers that integrate in such chains exhibit rapid upgrading.</p> <p>The typology of upgrading developed by Humphrey and Schmitz indicates four possible routes that may occur in firms:</p> <p>a. <i>Process upgrading</i>- this is enabled by superior technology, reorganizing production to increase efficiently and increasing output through work management.</p>

<p>staff. (H2)</p> <p>To increase or enable higher quality the firm carried out the following activities</p> <ol style="list-style-type: none"> <li>Inspection at every stage</li> <li>Mandatory forms developed at each stage.</li> <li>Inspection formats created to the level of post packing inspection.</li> <li>Merchandisers have been allotted to deal with separate buyers so that responsibility is not shifted to and fro.</li> <li>In the case of seasoned or regular buyers trust was high.</li> </ol> <p>Specifications of product are clearly given by company to be adhered to strictly. They do this by discussion with their key staff of the firm, who visit the suppliers weekly. This is</p>	<p>joined the firm were related to pern winding, bobbin winding machines which were put in to save the labor cost. (M3)</p> <p>The company utilized the services of a designer based in the EU Market. The company was able to get better idea of the colours for particular seasons and make suggestions to buyers about specific designs or combinations. Designer in buyer markets increased the ability of the firm to design products that would meet the sensibilities of their buyers' segments. (M2)</p> <p>The firm had not been able to make sufficient changes in the organization within the firm, or to undergo large scale technology changes, possibly because its handloom linkages were</p>	<p>establishment of a number of finishing equipments, especially suitable for made up categories.(S7)</p> <p>Up gradation of firm activities, a more clear and different focus that added more value to it was called for. (S10)</p> <p>Firm wanted to enter into activities that would give it more returns, since it had already hugely invested in scale and differentiation activities. (Finishing activities). It needed to focus on those activities that would capitalize on these investments, or benefit from them. Own brand manufacturing seemed to be a natural progression to the firm. (S10)</p> <p>The branding strategy was based on the firm's link with one of its German buyers. At the level of an importer distributor, it was offering financial and marketing</p>	<ol style="list-style-type: none"> <li><i>Product upgrading</i>: this happens when the firm moves into more value added product lines or sophisticated product categories that has greater unit value.</li> <li><i>Functional upgrading</i>: acquiring new functions in the chain or abandoning existing functions that are no longer value enhancing to increase the overall skill content of activities.</li> <li><i>Value chain upgrading</i>: knowledge derived from operating in one kind of chain is utilized in other chains, or catering to diversified chains with other needs.</li> </ol> <p>Gereffi (1999:53) in his research on garment chains spoke of how OEMs (original equipment manufacturers) evolved on an upgrading trajectory to being ODMs (own design manufacturers) and a few firms became OBMs (own brand manufacturers). This was seen among East Asian suppliers of garments working for large US buyers.</p> <p>He described this as a process of '<i>organizational succession</i>'. This meant that the firms started producing for buyers catering to the low end of the market and as their capabilities improved and</p>
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<p>knowledge and skill level increased they took up design development needs of these buyers. A further establishment of these abilities led to the supplier firms being able to enter into a branding strategy or brand development by themselves.</p> <p>From case study firms it is seen that local producers experience significant process and product upgrading.</p> <p>Process upgrading is manifested in</p> <p>a. <i>Use of organizations skill in streamlining production:</i> this is with clear demarcation and accountability seen in all firms. The point to note is that production activities were centered on key buyers' needs and meeting their requirements, either directly, when buyer was in the factory, or in having the skill set and knowledge base to meet their queries.</p> <p>b. <i>Dispensing with low value adding activities:</i> this is done by using secondary producers for fabric conversion and vertically integrated cooperative societies to ensure confidential and exclusive design development processes in firm H.</p> <p>c. All case study firms have demonstrated the <i>ability to take over less strategic producer</i></p>	<p>advice to an established chain store in that country. (S5)</p> <p>This link would be used for setting up base in the EU and distribution to other countries.</p> <p>Some high value treatments carried out on fabrics to increase its value or change its finish like zero zero finishing – preshrinking done</p> <p>Chemical additives that change nature of the product e.g. enzyme treatments like softening, fire retardancy and water repellency. (S8)</p>	<p>limiting it. Future growth plans were well in place, with the firm having invested in the integrated textile park in acquiring land and providing an expression of interest (M6)</p> <p>Firms in Kannur took up design development by maintaining in house design teams manned by well qualified design-trained personnel. Most of the finishing work and packing for retail showroom done for private labels was being done at the factory especially packing for the final retailer showrooms.</p> <p>The respondent believed that the future of this business in the cluster lay in the ability to source products. The firms should become master coordinators and planners who would</p>	<p>followed by the development of a production sample for approval. This is checked for color, quality of weave, construction defects etc. this is checked by firm quality inspectors at the production sites. The quality inspectors go to firms on a weekly basis. On a monthly basis all second tier firms are visited by the export manager.</p> <p>Usually if a second tier supplier had recurring quality problems it was avoided next season.</p> <p>These measures enabled the process of production and work organization to become more efficient. (H6)</p>
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<p>services. These are things like coding, packaging, certification and a range of logistic function. (Dolan and Humphrey, 2000 &amp; Humphrey, 2000)</p> <p>d. Case study firms in general use a variety of production sources in combination with within-firm production to individual weavers, societies, within cluster power looms and out of state production in power looms. This variety is aimed to a achieving needs of the industry:</p> <ol style="list-style-type: none"> <li>1. Variability of end products are high.</li> <li>2. Small batch or mall volumes of output.</li> <li>3. Limited fabric meter age.</li> <li>4. High variety in designs and construction.</li> </ol> <p>High difference in end use- highly differentiated made ups require very specific stitching, cutting and sewing operations</p>	<p>streamline production happening in a set of places in India.(M6)</p>	
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6.7.1.2 Between Links

Table 6.18: Data Array of Process Upgrading Between Links

FIRM H	FIRM M	FIRM S	INFERENCES
<p>A 'cotton meter' first sent to buyer for approval.</p> <p>Once production approved quality personnel visited 2' producers</p> <p>a) before production</p> <p>b) during production(H5)</p> <p>to enable high quality of output following processes systematically followed:</p> <p>a) Inspection at every stage</p> <p>b) Mandatory form developed at each stage.</p> <p>c) Inspection formats till level of post packing inspection</p> <p>d) Different merchandisers for different buyers (H6)</p>	<p>The firm had decided to use the power loom firms within the cluster in an attempt to decrease the costs of producing fabric in their won facility. This was because firms were not willing to take up handloom products as the price was a limiting factor.</p> <p>The within cluster power looms offered</p> <ol style="list-style-type: none"> <li>1. Lower price than handloom, though slightly higher than Karur based production</li> <li>2. Greater productivity</li> <li>3. Good quality that was inherent to the cluster.</li> <li>4. The weaving quality and the finish was superior to out of cluster output</li> </ol>	<p>Process efficiency upgrading between links</p> <p>Took place as a result of the buyers visits twice and year. The benefits were (S9)</p> <p>a. Clarity of what the firm was expected to produce in terms of samples. The products that had the greatest chances of being passed were developed by the combined action.</p> <p>b. What were the colour trends to concentrate on for that season</p> <p>c. The chances of orders being passed for approval were increased.</p> <p>d. A better codification of</p>	<p>The four types of relationships identified by Humphrey and Schmitz (2000, 2002) in global value chains vary along the continuum from arms length markets to hierarchies.</p> <p>A similar terminology to the quasi hierarchy was 'the captive network' used by Sturgeon (2002) or the 'controlled network' used by McCormick and Schmitz (2002)</p> <p><i>Evolving topologies:</i> As product upgrading becomes common the marketing network topology of the value chain (Humphrey and Schmitz, 2002) becomes evident.</p> <p>From initial arms length relations to one of trust and commitment, allowing leeway in credit periods, and ensuring consistent orders to supply firms- these are all manifestations of trust in the relationship.,</p>

<p>It is more of a combined or shared activity allowing for innovation, increasing bargaining power of suppliers, balancing power among actors and within the network increasing commitment, quality enforcement, sharing of ideas, new processes and market opportunities.</p>	<p>design enabled because of buyer's interaction with middle level staff, supervisors, quality control staff and merchandisers. e. Greater investment in suppliers capabilities, manifested by the number and duration of visits.  This was done as risk of failure higher for the product categories they dealt with and their link to fashion/seasonal trends.(S9)</p>	<p>5. It was possible to monitor products at all three stages since the proximity was high.  The firm interacted with the 2'suppliers at initial stage, during production process and after product reentered factory..(?)</p>	
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6.7.2 Data Array of Products Upgrading Within And Between Firms

6.7.2.1 Within Links

Table 6.19: Data Array of Products Upgrading Within Links

FIRM H	FIRM M	FIRM S	INFERENCES
<p>Designs developed in house confidentially developed by second tier producers. Need for designing skill, innovative variations, need of buyer different .Firm caters to need.(H2)</p> <p>New products may have embroideries, vale adding embellishments or innovative packaging for retail.(H5)</p> <p>Large range of products in home textiles. Firm must be able to produce new products, new finishes, new ools in house.(H6)</p> <p>Use of pictures, magazines, catalogues for design development. (H2)</p>	<p>New sample development was linked to fair participation. The development of samples and follow up was after fair participation was crucial to firm success (M4)</p> <p>Firm had policy of visiting a new country every year. The belief is that those fairs may act as the meeting point to other countries. A focus towards exploring new countries and customers (M4)</p> <p>Fairs that targeted or exhibited for the entire home range, for the range of lifestyle products that were considered in the home range were preferred, rather than furnishing specific fairs. E.g. 'Tendance',</p>	<p>The firm relied on personal contacts in the buyer markets for new designs and new colours of the season as well as to understand seasonal trends. They did not employ designers, nor had designers on a commission basis. These personal links helped them to understand the latest trends in buyers markets.(S1)</p> <p>The firm planned to venture into overseas distribution by own brand development. It planned to do this by linking with a large distributor in the country. (S5)</p> <p>The brand development strategy was towards a new product category. It was directed</p>	<p>Firm S attempted to differentiate its offering through specialized finishing practices in an attempt at functional up gradation.</p> <p>The cooperative link of firm H has raised the standard of the company in buyer markets- for its use of ethical work practices, and SA standards. Many awards won over the years. Low price is no longer as important as the set of conditions under which production occurs. This may be a marketable advantage to buyers and is used by them to secure customers.</p> <p>In Firm H most of their buyers are high value or high profit orientation of buyers directed towards upper middle or premium segments of customer. Exclusive wholesaler/distributor with designing skill.</p>

<p>Large variety of trims, zips piping, special stitches done with specialized finishing unit. Two to three finishing units to suit value of product(H5)</p> <ul style="list-style-type: none"> <li>• Design department develops the designs for a current season. Only sample development is done in the suppliers premises. The company H takes up the sample development function for these companies.</li> <li>• Thirty five to forty percent of buyers do not have product development as a key strength. Design development is done at the supplier premises. Their need is design development and sample development.</li> </ul> <p>Ten percent of buyers have no specific ideas about color, texture etc. They expect good</p>	<p>‘Ambiance’</p> <p>Suppliers meet new buyers, and are not limited to producing for existing buyers. Choosing fairs carefully, they meet existing buyers on yearly basis and meet prospective buyers. They are not bound by any supply contracts. On an annual basis at least two fairs visited, in the general product category. (M8)</p> <p>Fair also used to consider selling to off season markets to offload excess stock. Price wise though not the best, it would enable the firm to get consistent orders throughout the year and even sell off unfinished stock of fabric in the factory (M8)</p> <p>New sample development was linked to fair participation. The development of samples and follow up was after fair participation was crucial to firm</p>	<p>towards fulfilling an unmet customer need, or an unfulfilled customer requirement- to enable a customized ‘dressing up’ of homes with required products of every room. A total solutions provider, for both textile needs as well as products used in the homes standards) (S7)</p> <p>The firm felt that the range of products that they dealt with gave them a competitive edge. One product alone many not sell well but they were able to produce a range of colour coordinated items, pooled together as a set or kit. This was a key to success. Felt it was possible only with product upgrading. And targeting of lifestyle products, like cushions, floor items, beach items, treated and finished items with greater durability, grouping or pooling of a set or group of articles suitable for the different rooms of the</p>	<p>Focus on non tangible, aesthetic or feel related benefits. ‘Credence’ attributes. This itself raises the selling prices of the products made by the firm H.</p> <p>A fifth type of relationship that needs to be highlighted is the ‘modular production networks’. Developed by Sturgeon (2002) it indicates the following aspects:</p> <ol style="list-style-type: none"> <li>1. Buyers purchase customized products that they design and therefore must exchange information on product specific scheduling with suppliers.</li> <li>2. This information on products and processes can be codified in technical norms and this makes interaction between buyer and supplier less complex.</li> <li>3. Suppliers also have necessary skills for the tasks they undertake and this reduces need for monitoring by the buyer.</li> <li>4. This enables lowering of transactional dependence though products are</li> </ol>
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<p>combinations and designs. They need less volume. There is a strong dependence on the supplier. The buyer expects suppliers to come up with good designs and color combinations</p>	<p>success (M4)                  Firm had policy of visiting a new country every year. The belief is that those fairs may act as the meeting point to other countries. A focus towards exploring new countries and customers (M4)</p>	<p>home. The firm was able to cater to this need because of the equipments they had for the same. (S7)                  Upgrading is also with regard to the labour component utilized for producing a product. In deciding value, it was not raw material alone but how much of labour went into the product. This was especially true if it involved processes like embroideries, quilting detailed stitching etc. the numbers of items produced may be less but it still represents an upgraded product because of the labour component.</p>	<p>specific to each customer.                  5. The relationship enables the buyer to deal with different suppliers across their products and these suppliers have different or various customers.                  6. The term modular production network does not ascribe to the product architectures, but refers to a design that minimizes the customization of parts and a network that minimizes the customization of supplier-buyer relationships.                  The case study firms appear to follow aspects of modular networks in their production of customized products for various buyers. The details and specifications are passed down to suppliers in the form of 'spec sheets' or an actual sample of product to be constructed similarly, and this reduces buyers' need for monitoring. The confidence of buyers in their suppliers is seen in the length of their relationships, and in leaving all other aspects, other than design related, to be handled by suppliers</p>
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6.7.2.2 Between Links

Table 6.20: Data Array of Products Upgrading Between Links

FIRM H	FIRM M	FIRM S	INFERENCES
<p>Use of exclusive cooperative facility for high risk design development, using their staff, workers and supported by firms quality supervisors. Converting paper and picture based design to cloth, codifiability enhanced by skill. (H3)</p> <p>New products developed as a two way process involving both supplier and designers- a combined activity, back and forth movement of ideas, colour schemes, production ideas, costing , finishing etc. (H5)</p> <p>Finishing treatments taken up to increase final product look and feel, and increasing its value are</p>	<p>Fairs that targeted or exhibited for the entire home range, for the range of lifestyle products that were considered in the home range were preferred, rather than furnishing specific fairs. E.g. 'Tendance', 'Ambiance'</p> <p>Suppliers meet new buyers, and are not limited to producing for existing buyers. Choosing fairs carefully, they meet existing buyers on yearly basis in buyers market discuss about product changes, suggestions of products etc. Also development of new samples or fulfill enquiries for new buyers that could be potential orders/buyers.(M4),(M5)</p> <p>Increasing product variability had become the norm, and firms' ability to do emerging categories of products and not traditional home textile categories. New products like beach items, poolside</p>	<p>The design development for firm S own branding venture would be based in the foreign country, but the fabric manufacture and costing issues would be worked out in the factory. (S5)</p> <p>This area (own brand development) was a unique upgrading strategy not taken up by other firms in Kannur (in the large scale). This venture was supported by the German buyer, who was willing to take up distribution and marketing in the EU market.</p> <p>Especially related to this was the issue of branding. Till them they had been creating brand names for others. The firm had the advantage of high production</p>	<p>Bazan and Navas- Aleman (2001, Ch 5) describe rapid progress and product upgrading for Brazilian shoe exporters exporting to the US and EU. Kishimoto,( 2002,ch.9) in Humphrey and Schmitz (2003) describe the contribution of foreign buyers in the early export phase of Taiwanese computer producers.</p> <p>In examining the way that case study firms have shown upgrading, the following sources of evidence emerge:</p> <ol style="list-style-type: none"> <li>1. making, mutual design support, providing sourcing and delivery expertise and enabling trust: essentially a high degree of trust exists between producers</li> </ol>

<p>Within state:</p> <ol style="list-style-type: none"> <li>1. Zero shrinkage finish done at Hanweev , Chirakkal</li> <li>2. Stendering or Calendaring and Ironing at Malabar dyeing company, South Bazar, Kannur. (H10)</li> </ol> <p>Out of state treatments are:</p> <ol style="list-style-type: none"> <li>1. For laminating fabrics (water resistance) Erode</li> <li>2. Brushing of fabric,( for soft feel)-Erode</li> <li>3. Quilting of fabric (fusing or stitching a few layers for a thick, feel), embroidery at Erode</li> <li>4. Printing, with superior finish at Tirupur. (H10)</li> </ol> <p>In deciding whether to go for a new buyer the following factors considered</p>	<p>articles, floor cushions etc lifestyle based items etc began to be more important. Firm needed to diversify its product range and visiting ffarfairs helped them to do that. On an annual basis at least two fairs visited, in the general product category. (M8)</p> <p>Fair also used to consider selling to off season markets to offload excess stock. Price wise though not the best, it would enable the firm to get consistent orders throughout the year and even sell off unfinished stock of fabric in the factory (M8)</p> <p>Private power looms in Kannur was suggested as an alternative, but preferred source of production the firm. It was an alternative to Karur because</p> <ol style="list-style-type: none"> <li>1. Greater control over production</li> <li>2. Better inspection, monitoring and quality control</li> <li>3. Almost continuous communication between company and secondary producers so better control and</li> </ol>	<p>capacity and the experience of so many years. They were thinking of starting out on an 'own branding strategy'.</p> <p>This strong belief in branding stems from the following points:</p> <ol style="list-style-type: none"> <li>a) Firm's high production capacity needed to be utilized. Technologically it was one of the most superior firms in Kannur. It had the ability to produce in much more volume that it was presently producing. This benefit needed to be utilized.</li> <li>b) Firm S like other firms in the cluster dealt with a high degree of variability in product orders. Different kinds or levels of buyers called for catering to much variability in product. Short runs, t</li> </ol>	<p>and buyers.</p> <ol style="list-style-type: none"> <li>1. <i>Personalization</i>: A high emphasis on personal contact through a continuous presence in international fairs is being adopted by producers. Seeing the buyers and communicating personally seems to be a key strategy in maintaining a balanced relationship, where pricing is key. In examining the length of buyer relationships, it ranged from twenty five years to five years.</li> <li>2. <i>Continuous new product development</i>: New sample production becomes possible through the exposure in fairs. This appears to be a key selling strategy for producers- to produce new, innovative products that are fanciful and attractive. This is especially true of 'lifestyle' products which remain a key segment are</li> </ol>
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<p>a. Quality standards they require. If not meeting the firms inherent quality standards, is not preferred.</p> <p>b. Costing: examining components of cost and how well firm can provide specific products at particular price points.</p> <p>c. If buyer satisfied asks for samples- these maybe at fairs or may be related to season or special promotion. May be new sample.</p> <p>d. Firm develops new sample as per specification and air freights it. Approval is followed by orders. (H9)</p> <p>The following types of samples are asked for</p> <p>a. Production sample (small)</p> <p>b. Salesman sample (personal selling at buyers end)</p>	<p>achievement of targets.</p> <p>Fairs helped them to do that. On an annual basis at least two fairs visited in the general product category (M8).</p> <p>Fair also used to consider selling to off season markets to offload excess stock. It enabled the firm to get consistent orders throughout the year and even sell off unfinished stock of fabric . (M8)</p> <p>Private power looms was suggested as an alternative but preferred source of production for the firm. It was preferred to Karur because'</p> <p>1. Greater control over production was achieved.</p> <p>2. Better inspection, monitoring and quality control.</p> <p>3. Almost continuous communication between company and secondary producers for better control and achievement of targets.</p>	<p>The strong belief in branding stems from the following points:</p> <p>a) Firms high production capacity needed to be utilized. Technologically it was one of the most superior firms in Kannur. It had the ability to produce in much more volume that it was producing. This benefit needed to be utilized.</p> <p>c) Firm S like other firms in the cluster dealt with a high degree of variability in product orders. Different kinds or levels of buyers called for catering to much variability in product. Short runs, smaller order sizes and high variability of orders were traditionally done by firms from Kannur.</p> <p>d) The difference was that the firm had erected strong</p>	<p>being adopted by these producers. All case study firms exhibited a rigorous devotion to new sample development either by their own facilities and design staff but more often in combination with their buyers</p> <p>3. <i>Quality certifications and standards:</i> Standards imposed country wise is a strong governance factor. The role of certifications, the areas covered by them and the role of NGO s and privately funded organizations in furthering the application of such standards is increasingly becoming a source of governance, to developing country producers, that may seriously limit their profitability. Firms which are able to meet these changing and always increasing governance requirements of lead firms or retail giants either through making the specified changes in</p>
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<p>c. Photography sample</p> <p>d. Trade fair samples for B to B fairs.</p> <p>The variability of products seen in the different types of samples.</p> <p>Ability to vary outputs/product according to size of order and specific need of buyer, in very short delivery time may be specific enabler of firm. A source of rent. (H9)</p>	<p>Firm's fabric volume needs were being taken up by them. They were taking the function of the power loom facility based at Karur, which many producers in kannur were using for their fabric needs. (M4)</p> <p>Finishing treatments taken up to increase final product look and feel, and increasing its value are</p> <p>Within state:</p> <ol style="list-style-type: none"> <li>1. Zero shrinkage finish done at Hanweev , Chirakkal</li> <li>2. Stendering or Calendering and Ironing at Malabar dyeing company, South Bazar, Kannur</li> </ol> <p>Out of state treatments are:</p> <ul style="list-style-type: none"> <li>○ For laminating fabrics (water resistance) Erode</li> <li>● Brushing of fabric, ( for soft feel)- Erode</li> <li>○ Quilting of fabric (fusing or stitching a few layers for a thick, feel), embroidery at Erode</li> </ul>	<p>e)</p> <p>This variability in production lots and sizes was difficult for firm which had invested to such large scale. It would get the benefit of this large scale only if it produced in large volumes. It would justify investment in such scale. Now the high capacity of production was not being sufficiently utilized.</p> <p>f)</p> <p>An outcome of this was the firm realizing that large scale production and finishing alone was not enough. It would have to have capacity at all stages - dyeing weaving and supply. Backward integration also needed to be done to make full use of large production and finishing capacity.</p>	<p>their products or in the processes that they entail upgrade themselves.</p>
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	<ul style="list-style-type: none"> <li>○ Printing, with superior finish at</li> <li>○ Tirupur.</li> </ul> <p>The firm utilized individual weavers or families in the vicinity and cooperatives to a lesser extent. They had a greater patronage of the Kannur based power looms in the region and preferred this production source because of the greater control over quality and output that it offered. It was also good in quality thanks to the inherent weaving skill of the community and the influence of the Basel mission weaving traditions. Handloom weaving was done in-house to the extent of 30% of production. The degree of utilization of other supply chain participants were</p> <ul style="list-style-type: none"> <li>a. Power looms in Kannur 50%</li> <li>b. Cooperatives and individual weavers 20%</li> </ul>	<p>A way to do this was to engage in own branding or in creating fabric for a particular brand which would have market acceptance. (S 10)</p>	
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## 6.7.3 Data Array of Changing Mix of Activities or Functional Upgrading

Table 6.21: Data Array of Changing Mix of Activities or Functional Upgrading

FIRM H	FIRM M	FIRM S	INFERENCES
<p>1. The firm has taken up a functional upgrading in reaching the product to specified locations. Out of stock situations may occur in different countries where the product should be reached, when the importer distributor is not able to reach fabric to the country-specific dealers. This function is taken up by the company. This is especially true of large wholesalers and importers and design houses or multinational retailers or chain stores that may have stores or stockists in different countries.</p> <p>2. Out of stock situations at</p>	<p>As some of the major buyers were importers who supplied to retail chains, firm had to reach product ready for final store.</p> <ol style="list-style-type: none"> <li>Low value activities outsourced. Use of the home workers in the proximity to do preprocessing activities like winding and warp development.</li> <li>Doing in house handloom production just sufficiently enough to cover the costs of running the handloom intensive factory, and focusing on Kannur based power looms for fabric production.</li> <li>Finishing activities improved and equipments for the same installed.</li> </ol> <p>Between chain links the use of finishing treatments has been taken</p>	<p>The firm sometimes took up additional functions of its older buyers. These buyers gave access to their inventory levels to suppliers to enable automatic reorder or tailored sourcing. A continuous reordering was done. (S5)</p> <p>This meant that the firm had access to weekly demand figures to plan the next batch of products to be sent. Done with Japanese buyer (one of the oldest). At beginning of selling season, 50% of the order is sent. Sales data is passed on to the supplier. On a weekly basis, automatic resupply was done by firm.</p> <p>This was possible only because</p>	<p>Out of stock situations communicated to suppliers by buyers, who then take responsibility of reaching product to specific outlet. Buyer inventory stored in supplier premises till inventory levels at buyer warehouses reached minimum.</p>

<p>these stockists are communicated to the main buyer or key importer office which places the order with the supplier factory in the developing country with orders to deliver the same to the particular outlet located in a different country or to be sent to the warehouses.</p> <p>3. Functional upgrading is also seen in terms of the volumes being sent. With the company's largest buyer weekly shipments are made. This is done on receipt of stock figures from buyer warehouses. In short inventory is stored in supplier premises till taken up by the buyer. Flexibility in volumes sent and designs to be sent is incorporated into this replenishment system.</p>	<p>up to increase final product look and feel. Within the cluster itself stendering and calendaring is done and out of state, lamination is done.</p>	<p>of the forecastable colour requirements that were based on past performance. There was also an agreement on how the costs of weekly air freighting would be shared. Possible only because of high degree of trust and length of relationship.(S5)</p> <p>Value of product also changed depending on the labour component. More the difficulty level of the product, wages increase. Small batch or limited size production meant that they had facilities for high quality finishing and packing (S7)</p> <p>These additional activities enabled them to produce high value goods as they did not have the scales low value production entailed. (S7)</p>	
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## 6.7.4 Data Array of Evidence of Value Chain Upgrading

Table 6.22: Data Array of Evidence of Value Chain Upgrading

FIRM H	FIRM M	FIRM S
<p>As benefits of handloom production fell for buyers (post MFA), they became more cost conscious. Fewer buyers could purchase fabric at handloom prices.</p> <p>Mass market segment, where volumes were important and quality needed to be fair, became important.</p> <p>Firm developed separate division to deal with this as within cluster would not be able to produce this segment's requirements. The reasons were restrictive cost of raw material and labour.</p> <p>A separate value chain comprising firms in Karur, Tirupur and Erode, developed for large scale production. (H1)</p> <p>Outsourcing and subcontracting of suppliers done by most exporters in cluster. .</p> <p>This may be because</p> <ol style="list-style-type: none"> <li>1. Cost of handloom cloth production at</li> </ol>	<p>Some of the product categories that the firm planned to invest in were</p> <ol style="list-style-type: none"> <li>a. Turnkey towel manufacturing. This was to use imported machines that would increase the output of towels</li> <li>b. Garments, knitwear and tailoring to suit developing markets.</li> <li>c. Bed linen- use of top or high quality yarns meant for luxury markets. There was already a potential market within the country.</li> <li>d. Heavy ring with loom machines</li> <li>e. Silk weaving to be taken up.</li> </ol>	<p>Firm believed that in order to capitalize on its increased capacity, it would have to move beyond traditional strengths of Kannur. The traditional strengths of Kannur producers were</p> <ol style="list-style-type: none"> <li>a. small batches of production</li> <li>b. high width and high counts of fabric</li> <li>c. high variability of orders</li> <li>d. smaller sizes of orders.S10)</li> </ol> <p>To get the benefit of its better infrastructure it would have to produce in larger quantities.</p> <ol style="list-style-type: none"> <li>1. Development of individual branding or own branding was imminent. Distribution and marketing would be taken up if production was done by the firm.</li> <li>2. Domestic or retail entry, as the retail opportunity was rising. Larger volumes demanded could be produced by firm.</li> </ol>



<p>cooperative untenable</p> <ol style="list-style-type: none"><li>2. Lowering price only possible with increasing volume of production. This cannot be done within the cluster.</li><li>3. Bulk production difficult or impossible since many societies would have to be involved leading to colour variations. For high value treatments needed to be done the product has to move out of the cluster leading to increase in production cost.</li></ol>		<p>(S10)</p> <p>Increasing all round capacity was needed. They had production and finishing processes, and were looking to increase scale of their initial processes like dyeing. (S10)</p>
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## 6.8 Analysis of the Critical Success Factors Specified by Firms

### 6.8.1 Data Array of Order Winning Characteristics

Table 6.23: Data Array of Order Winning Characteristics

FIRM H	FIRM M	FIRM S	INFERENCES
<p>Quality- firm tries to do business with buyers for whom good quality or high quality is a pressing need(H4)</p> <p>Company focuses on profit, not volumes. Charged higher than average prices, even if volumes less as quality was commensurate with price.(H4)</p> <p>Firm attempts to differentiate their product offerings with non tangible attributes like certified raw material, standards and ETI or Fair Trade practices(H4)</p> <p>Traditional advantages of dyeing and water quality was being lost. Firm was finding it more beneficial to shift</p>	<p>Hands on approach to market development and sales promotion were seen. 20 staff members were continuously associated with sample development for fairs, which was a big task that needs to be well coordinated and timed well according to fair times and seasons. 10 staff members were dealing with various buyers on a day to day basis. Senior staff was allocated to buyers and were equipped to handle their queries. (M4)</p> <p>Execution of changes and modification of product and queries from buyers were very fast. This was another order winning characteristics. (M5)</p> <p>For the firm, the visit to international</p>	<p>The possession of a highly efficient imported rapier loom in the region was an order winning characteristic that differentiated it from other firms in the region. (S5), (S7)</p> <p>The company was able to develop a range of products because of the wide variety of finishing options it had set up in the factory. One product alone if sold may not yield the required volumes, but a range of colour coordinated items placed or pooled together as a set, this was a skill- the skill involved to source the required products and pool the range of products. This was an order winning characteristic. (S7)</p>	<p>According to the Handbook of Value chain analysis which lays out the methodologies and sources of data as well as the theoretical framework useful to guide value chain analyses, a distinctive feature of all value chains in the contemporary scenario is that they are 'buyer driven' or 'market pulled' as opposed to the 'supplier push' aspect that characterizes earlier export linkages. This means that a true understanding of the value chain needs to consider the following aspects:</p> <p>a. Markets are segmented and usually along variables like use, usage rate, frequency, lifestyle, demographics and benefits. Prior to the 1970s, segments were relatively homogenous, but when</p>

<p>activities out of cluster to serve market requirements. Knit wear requirement sourced from Tirupur was a new product category with huge range and possibility that buyers valued.</p> <p>Buyers needed sourcing skills from their suppliers- firms who could put together a combination of products sourcing from different parts of the country. Working out the planning and logistics was an order winning factor buyers were willing to invest in. (H10)</p> <p>Firm H deals with highly variable orders and quantities as a result. High flexibility and ability to handle specific requirements of smaller buyer a key skill of company- (H4)</p> <p>Order winning characteristics chosen by the firm were</p> <ol style="list-style-type: none"> <li>1. New designs every season</li> </ol>	<p>fairs was a key sales promotion activity.</p> <p>Having been in the industry for so long, it was able to develop generic products that would be attractive to a range of buyers since their exposure to the industry enabled this. (M6)</p> <p>Product knowledge, new weaving techniques, strong knowledge of innovative fibre mixes, knowledge of contemporary designs and continuous face to face interaction with the older buyers and newer buyers was an order winning characteristic (M6)</p> <p>Order winning characteristics suggested by the firm was</p> <ol style="list-style-type: none"> <li>1. New designs every season</li> <li>2. Innovative products</li> <li>3. Reasonable prices</li> <li>4. Responsiveness to buyer demand</li> </ol>	<p>This was an order winning strategy because no new products were the same. The existence of the entire framework to create or finish products enabled them to show the buyer (on site), the variations, the price options, the possible finishes at each price points, and the articles to be developed for promotion with very little delay. (S7)</p> <p>The firm felt it was able to pool or group articles or items to form sets or kits, that met different customer needs in a particular room e.g. nighttime kits, bathroom kits etc. (S7)</p> <p>It was able to do this by its sourcing expertise. Some items procured from outside others produced in house. The sourcing expertise was another key success factor of the company. (S7)</p>	<p>supply began to exceed market demand, and competition became rife, the needs of consumers increased, and micro segmentation became common among product groups and consumer classes.</p> <p>b. Each market or segment has its own characteristics, and preferred levels of these characteristics will be indicated by the market size and growth. These characters are called the key success factors or Critical success Factors (CSFs). The importance of the CSFs varies depending on the segment. Common CSFs are price, innovation, customization and quality.</p> <p>c. The CSFs can be grouped into order qualifying characteristics (producers need to achieve or have these aspects before they can even participate in the markets) and order winning characteristics (these factors lead particular firms to succeed, or have an edge over</p>
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<p>2. Excellent finishing and packaging</p> <p>3. Continuous improvement in product quality.</p> <p>4. Reasonable prices</p> <p>5. Faster delivery</p> <p>6. Better communication and query handling.</p>	<p>5. Reliable delivery</p> <p>6. All in one factory premise</p> <p>7. Better communication and query handling.</p>	<p>Order winning characteristics chosen by the firm were</p> <ol style="list-style-type: none"> <li>1. New designs every season</li> <li>2. Continuous improvement in product quality</li> <li>3. Reasonable prices</li> <li>4. Faster delivery</li> <li>5. All in one factory premise</li> <li>6. Finishing and packing</li> </ol>	<p>the other firms.</p> <p>d. The CSFS are never stagnant but change with time and with segment to which the firm caters. (Kapilnsky &amp; Morris, 2000)</p> <p>A limited number of pilot interviews were conducted with industry experts and key figures in the home textile industry, to understand what the drivers of the home textile business were. What did buyers look for from a supplier of home furnishings from the region? The following fifteen factors were selected after the pilot interviews as most relevant to the industry.</p> <ol style="list-style-type: none"> <li>1. New designs every season</li> <li>2. Innovative products</li> <li>3. Continuous improvement in product quality.</li> <li>4. Reasonable prices</li> <li>5. Flexibility in production</li> </ol>
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	<p>6. Responsiveness to buyers demand</p> <p>7. Faster delivery</p> <p>8. Reliable delivery</p> <p>9. Compliance with SA standards</p> <p>10. Hand loomed origin of product</p> <p>11. All in one factory premise</p> <p>12. Finishing and packing</p> <p>13. Better communication, query handling for orders</p> <p>14. Speedy redressal of customer complaints.</p> <p>Through a seven point scale, the case study firm was asked to rate these fifteen success factors in their degree of importance ranging from 1- not important to 7-critically important. A seven point scale is chosen because it helped respondents understand finer nuances of the scale.</p>				
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## 6.8.2 Data Array of Order Qualifying Characteristics

Table 6.24: Data Array of Order Winning Characteristics

FIRM H	FIRM M	FIRM S
<p>Query handling and responsiveness to customer complaints stated as key need-responding to questions, requests for information, and ability to take action.</p> <p>Communication skill, and problem solving (H7)</p> <p>Issues like late delivery, delays corrected and rectified through personal communication. This was especially possible because firm was not in a mass market segment coordinated by agent or buying office. Speed of delivery was not a pressing issue. (H7)</p> <p>Timing of market related activities key to success. For shipment in February, sample development in September.</p> <ol style="list-style-type: none"> <li>1. July-August –concept development, examining mood boards, trends, colours, fixing choices.</li> <li>2. End of September, on design concepts, alteration or changes made, orde placed. Delivery time considered.</li> </ol>	<p>Smaller executory team made responsiveness possible. It involved key management staff and some trusted weaving masters and supervisory staff who had been with the company for years and had acquired an experience of carrying out orders. (M5)</p> <p>Despite staff not being professionally educated in many ways, experience in nature of work delivery, ability to respond to buyer requirements and trustworthiness key. (M5)</p> <p>Key abilities that improved their process efficiency were:</p> <ol style="list-style-type: none"> <li>1. Reliability of staff</li> <li>2. Quick response</li> <li>3. Spontaneity. Ale to act to a complaint fast. Hands on response, by going back to factory related activity.</li> <li>4. Complete design confidence.</li> </ol> <p>The region was different from Karur, the close competing cluster for home textiles</p>	<p>Firm felt that if factors important to buyers were there, buyers would give orders. It was important for buyers to have confidence in their suppliers. (S6)</p> <p>One of the things giving confidence to buyers was the knowledge that suppliers had a streamlined system of product conception, development and delivery of product with adequate quality. It was not any one factor alone, but was a combination of all factors.</p> <p>The following factors helped firm to develop a preference among buyers (S6)</p> <ol style="list-style-type: none"> <li>1. Emphasis on continuous new product development.</li> <li>2. Ability to meet price and deliverability schedules.</li> <li>3. Firm has bargaining power in refusing orders because of a continuous emphasis on improving the</li> </ol>

<p>3. October to December production done in factory according to work orders. Closely monitored for timely action, crucial processes and finishing.</p> <p>4. Company sends product in January.</p> <p>5. February batches of finished, retail wrapped products at</p> <p>6. Retailer's warehouse or importer warehouse.</p> <p>7. March – product to be in stores for Spring /Summer season releases. Sold till June/ July.</p> <p>8. Buyers or representative arrive at factory in August/ September. (H9)</p> <p>Order qualifying characteristics selected by the firm were</p> <ol style="list-style-type: none"> <li>1. Flexibility in production</li> <li>2. Responsiveness to buyer demand</li> <li>3. Reliable delivery</li> <li>4. Compliance with social accountability standards</li> <li>5. Hand loomed origin of product</li> <li>6. All in one factory premise</li> </ol>	<p>because the latter was a high volume business, done in low cost and low margins. The firms there had greater investment in infrastructure through the TUF scheme and to justify their investment they needed to produce in large volumes.. In Kannur one of the order qualifying characteristics was the exact reversal of this philosophy. Low volumes, high margins, high variability among orders and batches, higher quality, better dyeing processes and tones and better profits for firms, though the processes were more cost incursive. (M4)</p> <p>Order qualifying characteristics selected by the firm were</p> <ol style="list-style-type: none"> <li>1. New designs every season</li> <li>2. Continuous improvement in product quality</li> <li>3. Flexibility in production</li> <li>4. Faster delivery</li> <li>5. Compliance with social /labour standards</li> </ol> <p>Finishing and packing</p>	<p>establishment, investing in higher quality finishing and continuously improving the systems in place for ensuring the buyers satisfaction.</p> <p>4. Stringent emphasis and control order finishing and packing. 100% inspection of final product was done. (S6)</p> <p>Order qualifying characteristics selected by the firm were</p> <ol style="list-style-type: none"> <li>1. New designs every season</li> <li>2. Innovative products</li> <li>3. Flexibility in production</li> <li>4. Responsiveness to buyer demand</li> <li>5. Reliable delivery</li> <li>6. Compliance with social standards</li> <li>7. Hand loomed origin ( for specific buyers)</li> <li>8. Better communication, query handling</li> <li>9. Faster redressal of customer complaints.</li> </ol>
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### **6.8.3 Development of Radar Charts for Critical Success Factor Assessment of Case Study Firms**

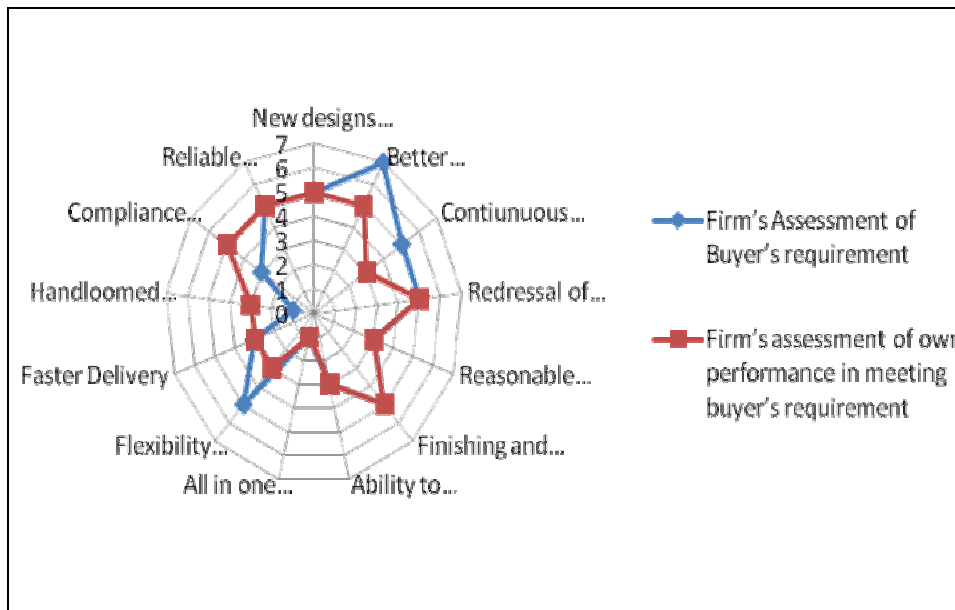
An important aspect of CSF analysis is to examine what the critical success factors that firms perceive are important and compare it with buyer's impression of the same. The first objective is *data triangulation*. By asking a similar set of questions to two sets of respondents, the differences and similarities can be exposed, eliminating possible biases from both sides. It also helps to understand how well suppliers understand their buyer's needs. It helps to reveal their shortfalls as well. The case study firms provided access to one or two of their important buyers, to present them with the tool for CSF analysis. The tool for CSF analysis was in the form of a selection of critical success factors, chosen and finalized after discussions with industry actors and a table for rating degree of 'importance', with a rating scale ranging from 1(not important) and 7 (extremely important).

A seven point rating scale was taken because experience from working with firms suggest that a 1-5 scale does not provide sufficient scope for "nuanced" responses (Kaplinsky & Morris, 2001, p.57). Ideally the CSFs should be compared for a particular segment or customer group/ type of retailer, to get the intersegment comparisons. As the case study firms expressed unwillingness in providing access (through email) to more than one or two buyers representing different segments, it was not possible to carry out a between-buyer-segment assessment of CSFs.

#### **6.8.3.1 Radar Charts of Firm H**

The most important aspect is that in many cases producers feel that they are satisfying buyers in most instances and even exceeding them in some instances. This is clear from the series of radar charts showing supplier firms ratings of the degree of importance of factors and how well they were meeting them. In all three cases the firms also did not have a wide variation in what it believed were important factors and how it delivered on these factors.

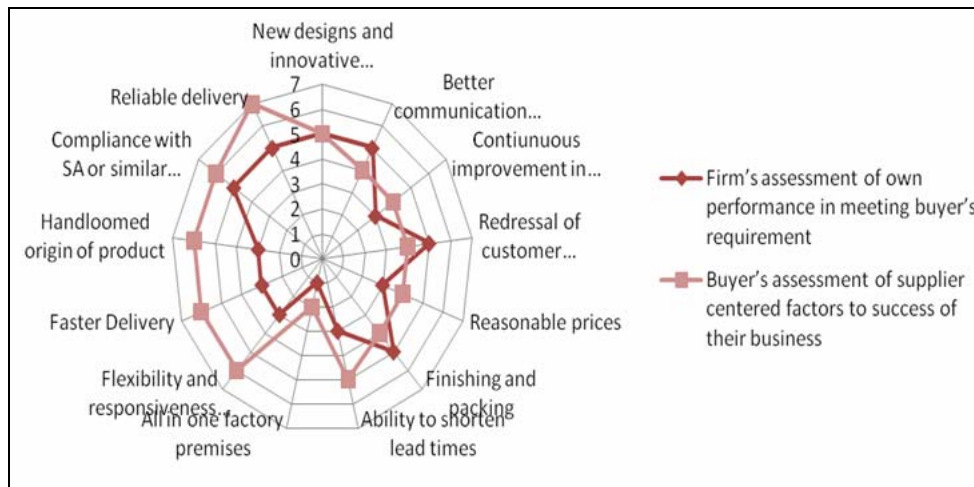




**Figure 6.1: Radar Chart Comparing firm H's Assessment of industry CSFs with firm's assessment of own performance in meeting buyer's requirement.**

In Firm H, the success factors of *flexibility and responsiveness to buyer demand, better communication and query handling and continuous improvement in quality* were areas they felt they could improve. The firm also believed it exceeded buyer demands in the area of *compliance with SA or other labour oriented standards*.

The same set of questions was asked to three different buyers (representing different retailer type or segments), to examine what was the relative importance of the same set of CSFs to the home furnishing industry, in their opinion. This was not an attempt to rate the supplier performance on these attributes, but to rate the factors' degree of importance. When the triangulation was carried out with the buyer, certain facts are revealed. The buyer/ retailer in the case of fig. 6.2 was an importer and worldwide distributor of furnishing fabrics. It was a retailer catering to interior designer firms, individual design houses and having its own stockists in many countries. Their assessment of the CSFs is compared with the supplier firm's assessment of its own performance.



**Figure 6.2: Radar Chart Comparing Buyer's assessment of CSFs with firm H's assessment of own performance in meeting industry CSFs. ( Buyer: Importer and worldwide distributor of furnishing fabrics)**

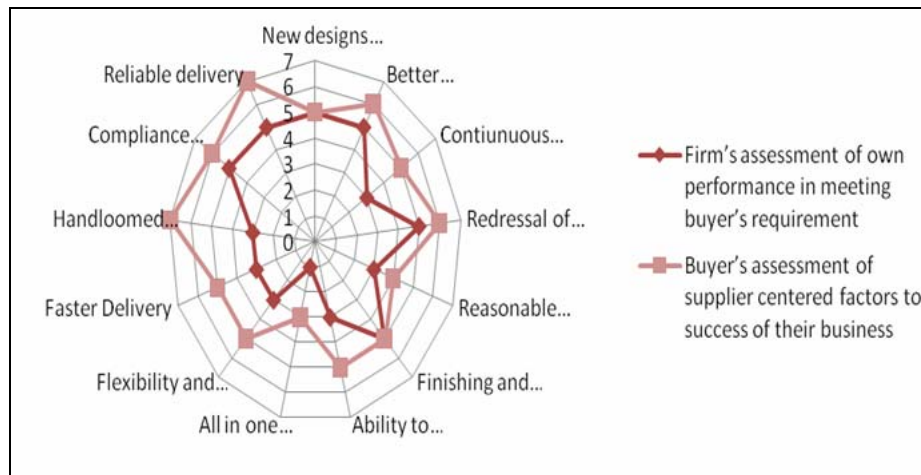
Differences are revealed, especially in the non tangible CSFs. Buyers considered *flexibility and responsiveness to buyer demand, faster delivery, reliable delivery and hand loomed origin of product* as critically important success factors. They were given much more importance than what the supplier thought. It is seen that the importance rating of the other factors is not very divergent. The ability to *shorten lead times* is also considered crucial.

An unexpected outcome was the importance buyers gave to hand loomed origin of fabric. This can be attributed to the retailer's target segment. One of the USPs of this group was the 'handmade origin', 'benefits reaching back to weaving communities', 'inherent skill and artisanal craft utilisation', or 'untouched by machine'. The importance of work organization – expressed by design and sample development, timely delivery, management of work flows and sourcing expertise- that was revealed to be critically important to the survey firms (in strand II of the study) is shown to be similarly important to case study firms, as triangulated by buyer responses.

It is seen that it is not one or two industry parameters, but multiple factors that impact an industry. In the initial years things like quality of product, meeting

pricing needs, and delivery of final product, have given way to more *volatile* and less negotiable aspects. This is intensified by a host of developing countries taking up supplier roles for export markets. With the low entry barriers for the T & C industry, they may compete with established supplier hubs like India by offering distinctive capabilities to particular niche markets. This is seen from the chart. Hand loomed origin may provide a capability which developed country markets may offer to niche customers. This is especially true when the environmental cause has become a precursor to brand acceptability. Sustainability, reduced carbon footprint, eco freindly fashion and green supply chain have become more prevalent terms (TE Online, March 20, 2009)

A second opinion was obtained from a buyer which was a specialized producer. It was producing its own branded products for stocking in its own outlets as well as in other retail outlets. It also sourced private label brands for other retail establishments. The key difference in perception was seen in *flexibility and responsiveness* to buyer demand. *Faster delivery, hand loomed origin of the product, reliable delivery, better quality improvements* and better complaint redressal achieved ratings of 7 or 6 in importance.

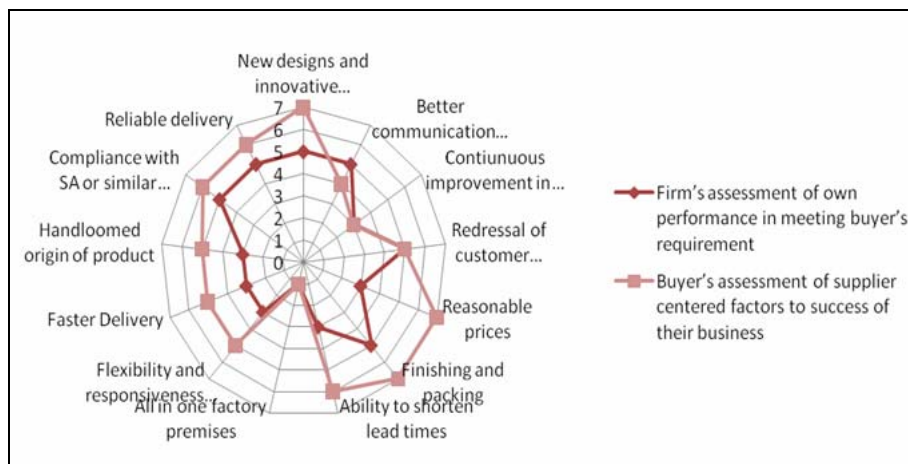


**Figure 6.3: Radar Chart Comparing Buyer's assessment of supplier centered factors with firm H's assessment of own performance in meeting buyer's requirement (Buyer: retailer well as importer and distributor of made up categories in own brand, own brand in other stores)**

Variation with supplier performance up to two values but not more was seen, meaning that the firm had a fair idea of buyer needs and believed they were capable of meeting those needs. Again a divergent view is seen in the case of *hand loomed origin* of product with suppliers not considering this aspect as important. Retailers which have weaker brand identity should enter into the business of providing private labels. This gives them higher margins, increased flexibility and the speed of responding fast to changes. Strong retailers are becoming strong brands, so labels promoted by these retailers are expected to generate revenues.

This is significant for the region. As greater variability, better quality and finishes and smaller lots are the region's strength, an emphasis on entering the value chains of strong retailers that provide such benefits, is called for. This does not mean to cater to the mass market or value-oriented benefits of discount chain or big-box retailers, but to meet the needs of tightly managed retailers with strong brand identities, where customization is called for.

The third buyer which agreed to partake in the CSF assessment rating was an importer and distributor of made ups in the UK market.



**Fig. 6.4: Radar Chart Comparing Buyer's assessment of firm performance with firm H's assessment of own performance in meeting buyer's requirement (importer and distributor of made ups in UK Market)**

New designs and innovative products were very important, as were reliable prices and finishing and packing. All in one factory premise was not considered important. The buyer was not concerned about where the processes taken up and how they were implemented provided it met certain broad guidelines of quality and incorporated item specific processes. Regarding the pricing of products there was a significant difference in ratings between the supplier and buyer.

An unmet need was seen in the importance given to shorten lead times and the need for flexibility and responsiveness. These are areas that the firm lacked as they needed a minimum of thirty to forty days to start shipment of an order. They did do orders that were staggered, or sent on a weekly basis in specific lot sizes, for their main buyers, but this was not commonly taken up by the firm. It was done only for the buyers with whom the relationships were long and trust based. Recent buyers were not offered this benefit.

### 6.8.3.2 Radar Charts of firm M

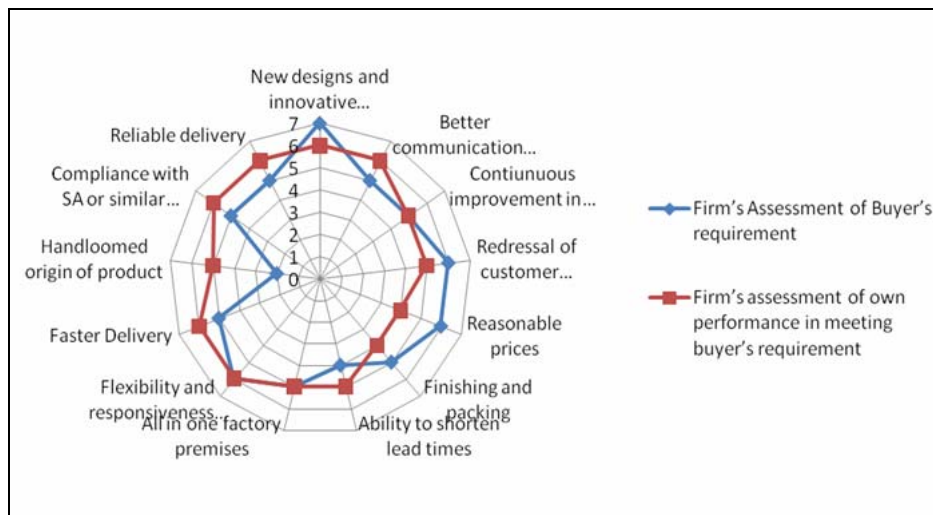
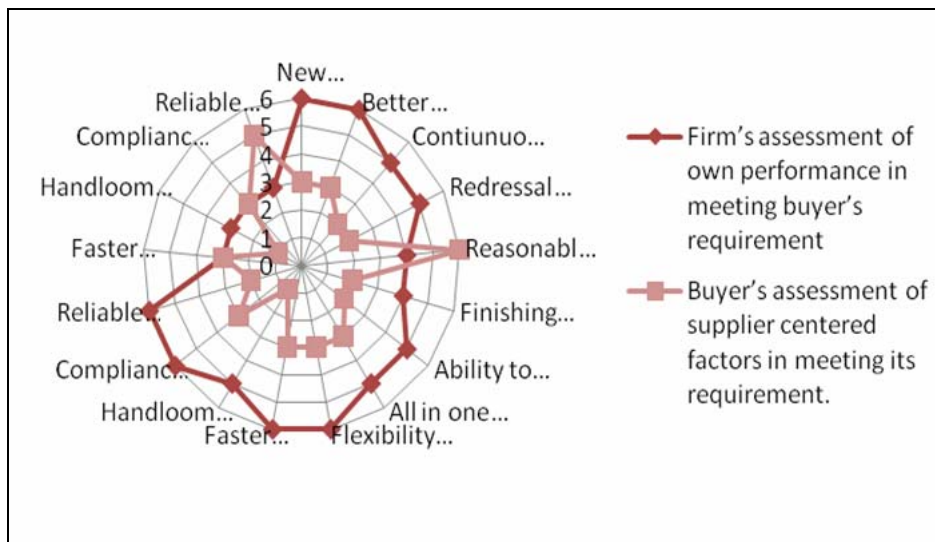


Figure 6.5: Radar Chart Comparing firm M's assessment of buyer's requirement with firm's assessment of own performance in meeting buyer's requirement

Firm M did not have too many variations in the importance given to the various factors. In the ability to *offer reasonable prices* some diversity in opinion was seen. In this case the hand loomed origin of the product was again given a minimum importance.

In the case of firm M access (through email) was permitted for a single buyer who was an importer and worldwide distributor of furnishing fabrics and made ups. Some of the comments received by email pertaining to the offering from the region were:

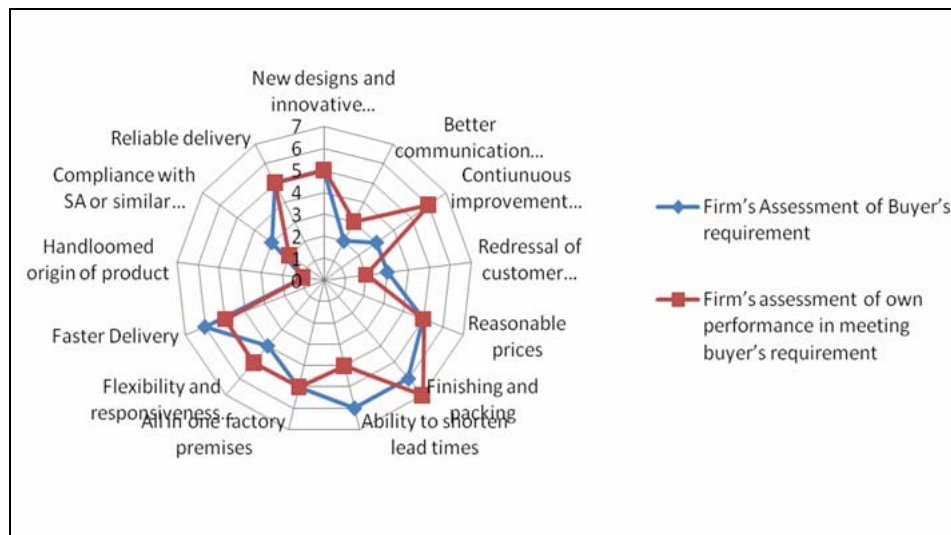
“I believe that similar production from these countries (Thailand, Malaysia, Pakistan, Indonesia) are less flexible and not as good as the product from Kannur. However, the main competitor is the country not mentioned namely China. At larger volumes production from China is cheaper and the quality is as good. Flexible production runs, good quality of weaving and excellent color consistency are some of the strengths of the Kannur region”.( Personal communication by email:20/08/2010)



**Figure 6.6: Radar Chart comparing Buyer's assessment of supplier centered factors with firm M's assessment of own performance in meeting buyer's requirement (importer and worldwide distributor of furnishing fabrics)**

The assessment of key success factors showed that the firm’s assessment was much above the buyers. Two aspects considered important were the *reliable delivery and reasonable prices*. It is seen that the buyer has given a maximum rating of 6 for any factor. At no time did the buyer indicate verbally or through mail that he was dissatisfied with the supplier’s performance on these attributes. The rating of ‘fairly important’ is given to a maximum number of factors indicating a tendency to select an average rating.

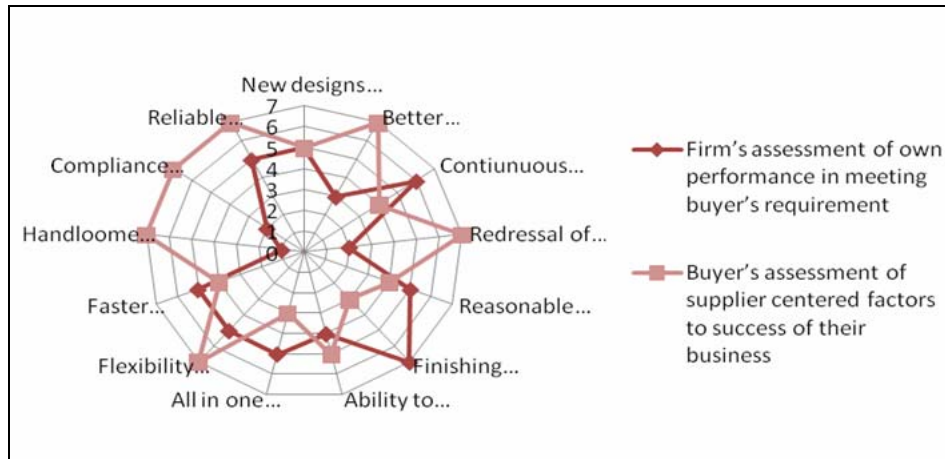
### 6.8.3.3 Radar Charts of firm S



**Figure: 6.6: Radar Chart comparing firm S’s assessment of buyer’s requirement with firm’s assessment of own performance in meeting buyer’s requirement**

The aspect of *continuous improvement in quality and ability to shorten lead times* are CSFs that the firm felt they were lacking in. this is significant when it gives an importance of 7 to *faster delivery*. Among the factors which were seen to be important among survey firms, design and sample development, sourcing expertise, management of work flows and consistent quality were given highest ratings. This supports the case study evidence as individual cases also considered these aspects very important to the success of their business.





**Figure 6.7: Radar Chart comparing firm S's assessment of own performance with buyers assessment of supplier centered factors**

A divergent view point is seen from the buyer's point of view about CSFs. The aspects that have received the maximum ratings are *flexibility and responsiveness to buyer demand, importance of hand loomed origin of product, reliable delivery, and quality compliance to SA equivalent standards*. There is a need for the firm to be more sensitive to the market needs as can be seen in this radar chart. The importance of quality compliance measures related to labour standards and the importance of the hand loomed origin means that these could fill niche market needs. The tactical advantage of the smaller size of Indian factories could be put to good use by offering smaller order sizes and variable fabric construction. This may be done especially by firm S because of its large investment in finishing equipment which has given the firm an edge in the variety and assortment of made up items it can do.



6.9 Analysis of the Buying functions  
 6.9.1 Data Array of the Key Buyer Segments of Case Study Firms

Table 6.25: Data Array of Order Winning Characteristics

FIRM M	FIRM H	FIRM S
<ol style="list-style-type: none"> <li>1. Top end stores focusing on non tangible competencies of supplier. ETA OR SA standards. High quality and finish. Worker environments strongly monitored through governance initiatives. Mainly retail chains in many EU countries with 40-50 retail outlets.</li> <li>2. High quality consciousness and price oriented. Distributors or wholesalers called importer wholesalers – own brands and other retail store private labels supplied.</li> <li>3. Agents for buyers in smaller EU based countries</li> <li>4. Mail orders or catalogue based companies which have strong quality and price option.</li> </ol>	<ol style="list-style-type: none"> <li>1. Individual retailers with company owned retail outlets.</li> <li>2. Store owned private labels of retail establishment.</li> <li>3. Smaller retailers which may be exclusive shops/ boutiques or single standing stores, having higher quality and prices. Country or region wise presence. Lesser quantity and more variable orders</li> </ol>	<ol style="list-style-type: none"> <li>1. Whole sale importer distributors with own stores and supplying to other chain stores and single standing outlets.</li> <li>2. Retail chains head quartered in the EU, having 50-100 stores strength in different EU based countries.</li> <li>3. Individual retailers-3-5 shops selling high end, high value products in low quantities.</li> </ol>

## 6.9.2 Data Array of the Key Product Categories

Table 6.26: Data Array of the Key Product Categories

FIRM M	FIRM H	FIRM S
<ol style="list-style-type: none"> <li>1. Made ups in core categories. Bed linen, table linen, bathroom linen with better finish and pricing.</li> <li>2. Stuffed items or cushions, according to specific sizes and shapes for room/ use specific needs</li> <li>3. Beach items and pool items, waterproof and weather proof items for outdoors or specific settings</li> <li>4. lifestyle based accessories or products</li> </ol>	<ol style="list-style-type: none"> <li>1. Bed linen in premium category, high counts with high end finishing for luxury segment of hospitality sector.</li> <li>2. Lifestyle products – items as single orders, coordinated to rooms, areas or function</li> <li>3. Promotional items and private label goods or orders. Of upper middle category Retailers</li> <li>4. Children or baby garments and items for specific purpose rooms coordinated to rooms and purposed, knitwear and hand worked items</li> </ol>	<p>Less amount of output as finishing rolls.</p> <ol style="list-style-type: none"> <li>1. Finished products in key categories like kitchen linen, table linen, and table linen.</li> <li>2. Sets or groups of items serving particular needs sourced from different producers or location but sourced as pooled items.</li> <li>3. Higher value made ups or lifestyle goods in less quantity. For buyers with higher finishing requirements.</li> </ol>

6.9.3 Key Destination of Sales

Table 6.27: Data Array of the Key Product Categories

FIRM M	FIRM H	FIRM S
<p>Based on volume</p> <ol style="list-style-type: none"> <li>1. UK</li> <li>2. USA</li> <li>3. EU based countries</li> <li>4. SA</li> <li>5. AUSTRALIA</li> </ol>	<p>Based on volume</p> <ol style="list-style-type: none"> <li>1. EU based countries</li> <li>2. Switzerland</li> <li>3. France</li> <li>4. Netherlands</li> <li>5. Japan</li> <li>6. Not consciously trying to increase US based value retailers as buyers do not have beneficial terms of trade</li> </ol>	<p>Based on volume</p> <ol style="list-style-type: none"> <li>1. Japan</li> <li>2. Germany (EU)</li> <li>3. Australia</li> <li>4. Netherlands, Norway, Israel, France</li> </ol> <p>Consciously trying to decrease dependence on US and UK due to dependence</p>

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## ANALYSIS OF STRAND II: DESCRIPTIVE ATTITUDINAL SURVEY

C o n t e n t s	7.1	Survey Firms Classified by Annual Turnover
	7.2	Comparisons of Product Categories Manufactured By Survey Firms
	7.3	Comparisons of Factors Enabling Export Development in The Initial And Present State
	7.3	Comparisons of Factors Enabling Export Development in The Initial And Present State
	7.4	Analysis of Upgrading
	7.5	Analysis of Aspects of Governance
	7.6	Sources of Fabric Production (Yarn To Fabric Conversion)
	7.7	Major Countries of Export
	7.8	Major Buyer Segments Important To Firms (Rank 1 Tabulated)
7.9	Nature of Value Chain (Typology Of Chain)	

The second strand of the study was a descriptive attitudinal survey carried out among the manufacturer exporters of the region. The firms which were part of the case study were excluded. The sampling frame that was referred to was the list of members of the Kannur Textile Exporters Association (KTEO) which had a list of 34 firms in its purview. 31 firms were considered as the population for the survey, leaving out the case study firms and out of this a sample size of 20 firms was considered as appropriate considering the initial low number of firms.

The uses of multiple sources of evidence in studies enables the research endeavor to address a broader range of issues- attitudinal and behavioural issues included. The most important advantage is that multiple sources enable *converging lines of enquiry*- a process of triangulation, which makes the case study conclusions more accurate, convincing and reliable. Patton (1987) quoted in Yin (2003) describes the four types of triangulation in doing evaluations. He

mentions triangulation of data sources, of different methods, of the theory behind the study and between evaluators.

The benefit of the survey was twofold: the first was to enable method triangulation – case study and survey method, so that potential problems of construct validity can be addressed. The second benefit was that multiple sources of evidence will also provide multiple measures of the same phenomenon. Separate sub studies enable comparison of conclusions between different parts in the final discussion of propositions.

A schedule of closed ended questions was prepared initially in consultation with the industry experts and the various interviewees the researcher had access to. This was to ensure that it contained significant aspects of the trade in home textiles as well as coverage of the regional and within-cluster issues that may have been significant. The global value chain linkages of sample firms was sought to be examined for the survey firms by including questions about the key success factors, the important product categories, the segments that they were targeting, the countries or destinations that the products were sent to and potential growth plans.

It also sought to corroborate the case study evidence by examining the nature of the relationship that the firms had with their buyers. This was done by including questions about the upgrading that they undertook, whether in product, process or function. Questions about the governance exerted on these firms by controlling firms and the source of this governance were covered as well to understand the degree of trust that existed between firms expressed in terms of the activities that they undertook the communication methods, the terms of trade and length of relationship.

Ultimately, the sample firm was taken through the process of examining the nature of the value chain that existed with its key buyers, by using McCormick's (2001) key identifiers for chain type, described in "Manual for Value Chain Research on Homeworkers in the Garment Industry".

## 7.1 Survey firms classified by annual turnover

**Table 7.1: Firms classified by annual turnover (in crores of rupees)**

Annual Turnover in Crores	Frequency	Percent
1 -10	12	60.0
11 -20	3	15.0
21 -30	5	25.0

**Inference:** In examining the turnovers of manufacturing export firms, a comparison cannot be made with other home furnishing firms in clusters like Karur and Panipat because of the difference in manufacturing technique. Predominantly power loom based operators dominate clusters like Tirupur and Karur, and the TUF (Textile Upgradation Fund Scheme) of the government for infrastructure up gradation of the textile sector is responsible for a great deal of this mechanization. Manufacturing firms in Kannur did not take up the scheme when it was first introduced and it has been adopted only very slowly, with only a few firms making capital investments on the basis of this scheme.

The reason for this delayed adoption may have been the handloom roots of Kannur. This aspect has been well documented in the case studies. The local handloom industry has resisted a drive towards conversion to power looms since the older manufacturers had a huge infrastructure of weaving sheds, maggham looms and a large number of employees who were traditional weavers and an equal number of personnel employed in doing preparatory works for weaving. Political backing and a genuine fear of their loss of livelihood has made the region resistant to capital investments. Many of the export firms' personal, social and community linkages have ensured that individual handloom weavers and cooperative societies are still given export related orders by export firms, though in a decreasing scale.

It is seen that only five firms are in a high turnover category, while a majority have a turnover of up to rupees ten crore. These figures are considerable

when one considers the total turnover of the cluster to have fallen in the wake of the recession. The export figures of the region is given as

2003-04 :Rs.260 Crore

2004-05 :Rs.270 Crore

2005-06 : Rs.280 Crore

2006-07 : Rs.310 Crore

2007-08 : Rs.325 Crore

2008-09 : Rs.290 Crore

2009-10 : Rs.225 Crore

(Discussion with Secretary, KTEO, 25/10/2010)

At the time of the study (2009-10), the effect of the recession was profoundly felt in the cluster. There was also the issue of the currency devaluation and the rising cotton yarn prices that were impacting the profitability of the industry.

**Table 7.2: Initial Product Categories Manufactured by Survey Firms**

	Furnishing Fabric	Made Ups Kitchen	Made Ups Bedroom	Made Ups Bathroom	Made Ups Table	Rugs	Others	Color Or Design Coordinated Accessories	Lifestyle Product	Blinds/Quilts	Purpose/Room Coordinated Clothing
No	6	4	6	8	5	6	10	20	20	19	13
Yes	14	16	14	12	15	14	10	0	0	1	7
Total	20	20	20	20	20	20	20	20	20	20	20

## 7.2 Comparisons of Product Categories Manufactured by Survey Firms

**Inference:** The initial product categories manufactured by the firm indicate what the core products that the firm sold were when it started its export business. This is important because one needs to know whether there has been a change in

the nature of products that the firm made and sold, over the years, as evidenced by change in the product classes. Has there been a shift to higher value products? Furnishing fabric initially sold as fabric rolls is a product form which takes advantage of the weaving skill and design skill of the cluster. In some firms, fabric rolls represent high value added categories, sold under tags of ‘hand woven’, ‘handmade’, ‘fresh from the loom’ or ‘fair trade’, retailing at prices from 160 sterling pounds per meter upwards.( Interview INTCS H-10)

This is for those retailers who have made this benefit a sales proposition. For a majority of manufacturers it represents a category that does not use any value adding procedures and has a low labour component. The made ups – now a common product category, consists of product classes covering specific products lines suited for the kitchen, bedroom, dining area and restroom (bathroom)

**Table 7.3: Present Product Categories Manufactured by Survey Firms**

	Furnishing Fabric	Made Ups Kitchen	Made Ups Bedroom	Made Ups Bathroom	Made Ups Table	Rugs	Others	Color Or Design Coordinated Accessories	Lifestyle Product	Blinds/Quilts	Purpose/ Room Coordinated Clothing
No	5	1	4	6	2	12	11	9	9	11	16
Yes	15	19	16	14	18	8	9	11	11	9	4
Total	20	20	20	20	20	20	20	20	20	20	20

**Inference:** It is seen that most firms started their first exports of fabric rolls and made up categories in the four product classes. This was and still remains the predominant product categories that firms deal in even now, as evidenced in the table that examines the present product categories manufactured by firms. The change is seen in more firms taking up ‘rugs’, ‘colour and design



coordinated accessories', 'lifestyle goods', 'blinds' and 'quilts' and even room coordinated clothing' product categories. These are categories which represent specific processing like silk work, quilting, stuffing, fusing, appliqué work, cut work, fitting specific accessories, use of specific fiber combinations, and specific fabric treatments like calendaring, lamination and softening which increases the value of the fabric with which products are made by rendering them more durable, weather resistant, comfortable or fashionable. They have a greater labour component as well. These factors make them, by nature, more expensive.

**Inference** In trying to understand the value added categories or new categories of products, one needs to look at the range of products that come out every year:

*Bed linen* includes product lines like bed sheets, pillow slips (pillow shams), bed skirts, duvet covers, quilts and cushions. Bedrooms would also come up with matching curtains, tie backs and also bedroom mats to be included in this list. Bed sheets itself vary in fibres, fabrics, colour and size of bed sheets. Throws, bed spreads and coverlets, quilts and bed curtains are also high value items.

*Bathroom linen* includes items like towels of different sizes, floor mats or bath mats, shower curtains, same soap cases, toothbrush holders, soap dispensers, mugs and rugs, bathrobes, bathroom slippers and bath sponges of different textures and colours to suit the bathroom décor.

*Kitchen linen*: this offers a range of products like kitchen towels of different sizes, pot holders, oven mitts, double mitts and aprons,

*Table linen*: this covers items like table cloths of different shapes, table mats or place mats, cloth napkins, napkin holders, table runners, centerspreads and centerpieces.

*Curtains* were formerly made from fabric rolls at the buyer's premises, but the huge variety in this category has enabled most of these products to be made at

the factory premise ready for decorating. Living room coordinates refer to the huge variety of items in different colours and textures that are used to adorn a living space central to the home. Sheer curtains, heavy lined curtains, embroidered curtains and valences with lace trimmings are some high end varieties. Usually treated fabrics need to be used because of the heavy exposure to sunlight, and properties that are sought after are noise and light reduction, or nano-treated to become dirt or stain proof. The design options are many, and as a product category vary from stripes, checks, floral prints, woven, linen, printed or plain. The fabric type varies from cotton, to linen, voile, silk varieties, velvet, tapestries or brocades in silk or cotton. Transom window curtains, taptop curtains, tie top curtains and grommet top curtains are all varied types which are heavily fashion oriented.

Cushions may be soft, pile or structured and firm. They are of different shapes and uses. Beach cushions, pool mattresses, pool mats, hammocks, futons, foldable cushions, floor cushions are all made with fabric that has gone through value adding treatments to prevent damage due to the entry of sand and dirt.

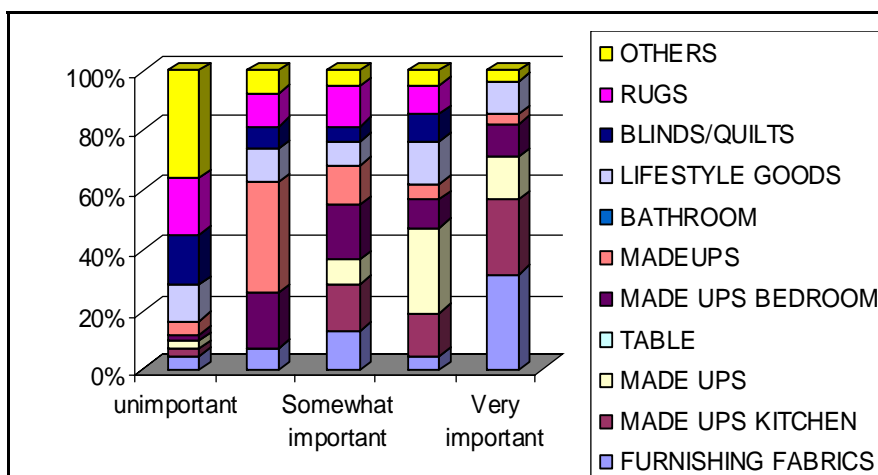
### 7.2.1 Degree of Importance of Product Categories

**Table 7.4: Product Categories Important to the Industry in 2010**

<b>Product</b>	<b>Unimportant</b>	<b>Slightly Important</b>	<b>Somewhat Important</b>	<b>Important</b>	<b>Very Important</b>
Furnishing Fabrics	2	2	5	2	9
Made Ups Kitchen	1	0	6	6	7
Made Ups Table	1	0	3	12	4
Made Ups Bedroom	1	5	7	4	3
Made Ups Bathroom	2	10	5	2	1
Lifestyle Goods	5	3	3	6	3
Blinds/Quilts	7	2	2	4	0
Rugs	8	3	5	4	0
Others	15	2	2	2	1

**Inference:** In examining the importance rating given by exporters to the product categories, in their present business situation, the dominance of the traditional product categories in the home textiles can be seen. There can be no export without being able to provide the core product lines in fabric rolls, bed linen, bathroom linen, kitchen linen and table linen. The degree of importance varies with fabric rolls being ‘very important’ for majority of firms, kitchen and table linen being ‘important’, bed linen being ‘somewhat important’ and bathroom made ups being ‘slightly important’ for most firms.

What is also seen is that while close to fifty percent of the firms considered lifestyle goods, blinds/ quilts and rugs as important or somewhat important, the remaining considered them as unimportant to their basket of items. This may mean that up grading of products may be happening to a lesser extent than case study firms have shown. It may also mean that these firms are governed by the needs of a key buyer or two who are specific about what to produce, in how much quantity and when. As these buyers take up most of their products producer firms need to produce to their terms, and according to the design requirements which is most often given by buyers themselves. This is a key requirement of developing country firms in quasi-hierarchical value chains. This becomes clear on looking at the figure depicting the same.



**Figure 7.1: Degree of Importance of Product Categories**

### 7.3 Comparisons of factors enabling export development in the initial and present state

**Table 7.5: Factors Contributing to Firm Success in Initial Stage**

<b>Firm Related Factors</b>	<b>Product Related Factors</b>	<b>Buyer Related Factors</b>	<b>Government Related Factors</b>
Personal contact	Handloom origin	Standards of buyer	Government supported fair participation
Personal selling	Innovative fabrics	Buyer agent in India	Government cash incentives
Company's own agent	Quality (fall and drape)	Buying offices in India	Trade journal contacts
Contacts with other exporters	Quality (dyeing) Quality (weaving)	3 <sup>rd</sup> party trading firms	Other government incentives

**Inference** It was important to understand whether firms depended on any particular source of rent or capability in the initial stage of export business. This is because firms do not begin to export suddenly, they may develop contacts with the help of trade journals or government sponsored meets, they may also use the buyer's agent or seller's agent route. This relies on the presence of a contact person who has access to buyers, and who takes the risk component in the case of buyers not meeting the terms of agreement. Many first time exporters start export through agents or 'piggybacking' on their contacts, before venturing into the foreign markets by themselves.

	<b>Unimportant</b>	<b>Slight important</b>	<b>Somewhat important</b>	<b>Important</b>	<b>Very Important</b>
<b>Firm related factors</b>	4	1	2	5	8
<b>Product related factors</b>	2	1	1	9	7
<b>Buyer related factors</b>	12	3	1	3	1
<b>Government related factors</b>	11	4	3	1	1

A set of seventeen factors were provided to the exporter through the schedule, which were to be rated in their degree of importance to the initial export success. The factors were decided after inputs from case interviews and general and focused interview, randomly arranged and not in any order.

A second step of pooling these factors into four heads was done to simplify the analysis and to make tables self explanatory.

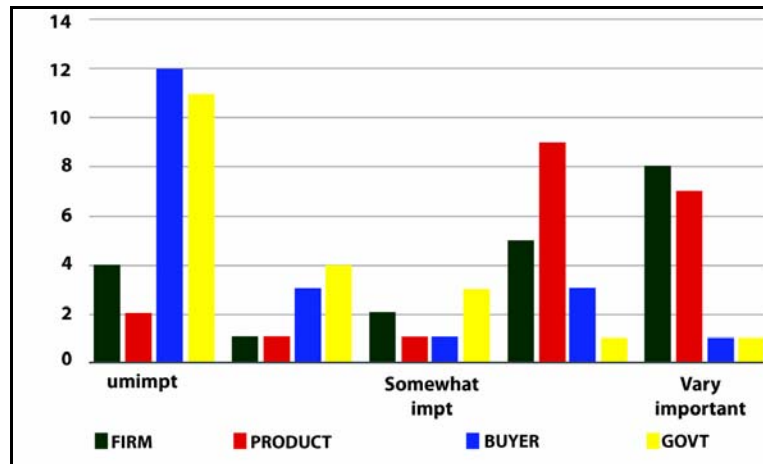
The aspects which pertained to firm related activity or the suppliers own actions were '*firm related factors*'. The 'product related factors' were attributed to the tangible or intangible aspects of the selling product, in this case the woven fabric. The actions of the buyer, through agents, buying offices or larger trading companies or their expected product quality standards were pooled under '*buyer related factors*' and '*government related factors*' pooled together the schemes incentives, journal contacts or fairs that are promoted at the central level to increase export orientation of manufacturing firms.

### **7.3.1 Factors Increasing In Importance**

In examining the initial enabling factors, it seems that a great deal of first time exports and developing of export linkages was backed by the action of the export firms themselves. They were of the opinion that visits to buyer markets, visit to fairs, personal selling through physical means like the use of samples, were commonly used. A few firms which were large exporters used their own agents to introduce their products and get orders.

The use of other exporter contacts from within the region was rated as 'unimportant' by almost all firms. This is unusual as many clusters rely on existing contacts with other cluster members to first begin their exports, and exporter associations where first timers were aided by being offered part funding for fairs in potential markets, or to meet prospective buyers, and where an attitude of 'trust' was inherent in the cluster, was strangely absent from this region. Though the exporter association was formed as far back as 1956, it may have

functioned mainly for infrastructural gains to the region, or for government level lobbying. There seemed to be little handholding between firms in the region.



**Figure 7.2: Pooled Factors Enabling Firm Success in the Initial Period**

The factors personal selling and personal contact with buyers were rated very important by almost all firms as central to their success. This supports the premise that first exports were often through their own efforts rather than larger firms or buying agents dictating terms to them. This has increased the bargaining power of these firms in the buyer-seller relationship, as they have been exposed to buyer needs, the industry benchmarks, and the levels of quality that are to be reached to perform in markets that are neither alien to them, nor whose needs are conveyed by intermediate firms like agents. The direct exposure to these markets and first hand meetings with buyers in early stages may have been instrumental in the trust based relationships that marks firms from the region. This is supported by case study firms whose average length of relationship with key buyers is fifteen years. This means they have not just met quality standards but have partnered with buyer firms in providing them what is valued in their industries.

A second aspect is that product related factors – the handloom fabric, quality of dyeing and weaving and innovation built into products was considered either important or very important to 85% of firms surveyed. This is again supportive of case

study evidence as in the years before the abolition of the MFA, the duty exemption for hand loomed or hand made products in destination ports encouraged the sale of handloom fabric from the region. There were always quotas for handloom products in many importing countries which were rarely filled, meaning that a ready demand was there. This meant that handloom producers faced less competition then, than after the MFA, when the opening up of markets began and the duty exemptions were ended.

The quality of dyeing and weaving and innovation are a result of the origins of the product. It can be said that the historical weaving roots of the people of the region was perhaps reinforced by structured and organized weaving practices introduced by Basel Missionary Establishment. German perfection in technique and skill of weaving may have been part taught, part in-born, but interview data has revealed that the first exports from the region was understandably to establishments in Germany and slowly moved into other Scandinavian countries like Switzerland, Finland, Austria, Norway, towards France and into UK based markets, before the US was even considered as a potential market.

It may be said that the German linkages or roots of the industry has played a part in providing market access for firms from the region. The quality of weaving, the instilling of perfection in technique, the adoption of rigorous long drawn out practices, particularly in yarn treatment before weaving and dyeing- the pre-loom yarn fiber processing is an intrinsic practice that is native to the region. Vat dyeing is another Kannur specific dyeing process that is protracted, very labour intensive and systematically done by experts. This has resulted in colour tones that defy machine based dyeing techniques, and excellent colour matching from batch to batch, despite being manually handled and very fine differences that increases the richness and depth of colour. The soft water was again mentioned as a key factor.

### **7.3.2 Factors Decreasing In Importance**

Government support as evidenced by trade journal contacts, subsidized fair participation or incentives were rated as unimportant in the initial stage of export business, by most of the survey firms.

This is not unusual when one considers that the policy during the years before liberalization was ‘import substitution’ as opposed to export orientation. It was a drive to enable self sufficiency in clothing and fabric needs and this brought about the mushrooming of the power looms as SSIs and the strong support of the handloom sector in a move to increase the production within the country. It also led to apparel manufacturing being reserved for the SSI sector, and a marked lack of support for mill base production of cloth. This has caused a great reduction in the efficiency of operations. The government support for export became clear only after 1991 and since then the five year textile policies has been directed towards improving export performances. In the initial stages a personal effort by the firm owners, a generous use of their own funds and a personal rapport that developed between buyers and sellers of handloom fabric was perhaps the most important aspect that developed the industry.

Buyer related aspects like the agents of buyers or their buying offices were not used by firms to develop their markets, since they are rated as unimportant. Many export firms surveyed were emphatic that it was never the buyer standards that caused products to be exported from the region. It was that the quality of fabric was inherently high, with the lower counts of fibres, with the dyeing quality and the weaving process itself with hard beating of the weft and tightly compacted warp made it stiff and inflexible- ideal for upholstery purpose- and durable because of the cotton fiber.

### **7.3.3 Statistical Tests to Increase Reliability of Findings**

#### **7.3.3.1 Use of t Test to Examine Difference in Mean Scores of Initial Success Factors**

The t test was used to examine whether initial success factors were significantly different among two groups of firms. The firms were divided on the basis of product categories. The first group included firms that had not taken up value added categories of products as shown in the data pertaining to ‘present product categories taken up by the firm.’ The second group had taken up these categories which included product groupings like rugs, blinds and quilts, lifestyle goods and fashion coordinated accessories.



**H<sub>0</sub>:** There is no difference in the average scores of initial factors affecting firm performance between the two sets of firms

**H<sub>1</sub>:** There is a significant difference between the average scores of initial factors affecting firm performance.

The t test for small samples is given by

$$t = \frac{|X_1 - X_2|}{\sqrt{\{S_1^2/n_1 - 1 + S_2^2/n_2 - 1\} \times (1/n_1 + 1/n_2)}} \text{ where}$$

$X_1$  mean of score of initial factors affecting firm performance for set I of firms

$X_2$  mean score of initial factors affecting firm performance for set II of firms

$S_1^2$  variance of initial success factors affecting firm performance for set I of firms

$S_2^2$  variance of initial factors affecting firm performance for set II of firms.

**Pooled variance** =  $\sqrt{\{S_1^2/n_1 - 1 + S_2^2/n_2 - 1\} \times (1/n_1 + 1/n_2)}$

**Calculated value** of the t statistic = 6.7187

**Table value** of t statistic at 95% confidence for dF = 18 is 1.7341

As the calculated value was greater than the table value, the null hypothesis was rejected. It can be assessed that firms which had taken up new value added product categories in the present scenario differed significantly from those which had not, in the mean scores of their initial success factors.

### 7.3.4 Examination of Present Factors Contributing to Firm Success

**Table 7.7 Pooled Factors Contributing to Firm Success**

<b>Production Based Factors</b>	<b>Product Based Factors</b>	<b>Work Organisation</b>
Lineage of firm	Handloom origin	Dyeing and weaving strength
Trust/ strength of relation with buyer	Consistent quality	Design and sample development
	Price competitiveness	Management of work flows
	Large scale	Timely delivery
	Consistent orders	Sourcing expertise

**Inference** It was important to know whether there was a change in the factors that were aiding the performance of the firm in the present situation. The case study evidence and other general interviews pointed to the importance of some factors that aided firm success. Drawn from case studies twelve factors were identified, the importance of which was rated by exporters, when placed in no particular order. The factors were then pooled under three heads to aid inference building.

*Production related factors* pooled the aspects of ‘lineage’ and ‘trust /strength of relation with the buyer since these seemed important to the region. Many firms had relationships that went back over fifteen or twenty years and though the firms in the region could not boast of much technological advancements or increase in scale and volume of output- traditional factors that are considered important by buyers- the buyers were still sourcing products from them and this was an unusual thing. It was important to know what sustained this relationship.

It is at this point that the ‘trust’ in the relationship needs to be explored. The literature on trust is vast and it is closely related to the governance literature. The trust in the relationship is manifested by the length of the trading relationship primarily, and factors like the nature of communication, credit offered, nature of contractual relationship and nature of decision making. In discussion with survey exporters orders were often conveyed by phone or fax, and terms of payment were adjusted or negotiable in all cases.

*Product based factors* was a second category that sought to pool the aspects that firms needed to deliver in the physical product like consistent quality, large scale, price competitiveness or consistent orders.

*Work organization* considered aspects like dyeing and weaving strengths of the company, design and sample development strengths, management of work flows within the firm, sourcing ability and timely delivery

#### 7.3.4.1 Use of t Test to Examine Difference in Mean Scores of Present Factors

The t test was used to examine the firm's importance given to present factors affecting firm success, the t test was done to assess whether firms pooled on the basis of product categories into two groups differed significantly in their mean scores of present factors affecting firm success. Set I consisted of firms whose initial and final product offerings did not differ much. This meant that they had emphasized the traditional product categories without going in for much variation or upgrading of product type during the course of the firm's life cycle. The second group or Set II consisted of firms which had claimed to take up value added lifestyle goods, design coordinated goods, rugs, blinds or quilts as well the manufacture of special promotions as part of their product profile at the time of the survey.

These two groups were compared on the basis of the mean score of the present factors affecting firm success to examine whether there was any difference in the scores of these factors which affected firms' take up of new product categories.

**H<sub>0</sub>:** There is no difference in the present factors affecting firm success between the two groups.

**H<sub>1</sub>:** There is a significant difference in the present factors affecting firm success between the two groups.

t test for difference between means for small samples was done.

The t test for small samples is given by

$$t = \frac{|X_1 - X_2|}{\sqrt{\{S_1^2/n_1 + S_2^2/n_2\} \times (1/n_1 + 1/n_2)}}$$

Calculated value of  $t = 0.4301$

Table value of the t statistic at 95% confidence for  $dF = 18$  is 1.6641

As the calculated value was less than the table value, the null hypothesis of no difference between the present success factor scores between the two groups was accepted.

The explanation of this may be that there was no significant difference between firms grouped on the basis of the range of product categories taken up in the present state. This means that firms with an emphasis on traditionally sold made up categories as well as firms which had taken up both traditional product categories and new product categories had a similar emphasis on the present factors affecting firm success which were oriented towards the organization of work within the firm and buyer specific needs.

#### **7.3.4.2 Use of the t Test to Examine Mean Scores of Success Factors for Turnover Related Groupings**

The annual turnover of firms was taken as a variable to divide the twenty firms into two groups. These were firms with turnover of rupees 1-15 crore and those with turnover of rupees 16-30 crore to examine whether turnover per se had any effect on their patronage of success factors in the present state of their business.

**H<sub>0</sub>:** There is no difference in the present factors affecting firm success between the two groups.

**H<sub>1</sub>:** There is a significant difference in the present factors affecting firm success between the two groups

The present factors scores of the two sets were assessed to examine whether this had an effect on firms as evidenced by their difference in turnover. The null hypothesis of no difference between the two groups classified on the basis of turnover was rejected because the calculated value of the t statistic was 2.6407, while the table value of the t statistic at 18 degrees of freedom and 95% confidence was 1.7341.

It may be said that the present success factors that were centered on the organization of work in factories. Production related aspects and product related aspects to a lesser degree have had an effect on firm turnover. The two groups differed significantly in the importance given to the present success factors. It had an impact on their turnovers to a significant degree.

### **7.3.4.3 Examining Mean Scores of Present Success Factors for Firms Grouped on Basis of Activities Undertaken**

Firm were pooled into two groups on the basis of the status of firms. The status was expressed in terms of the activities that they undertook. These were manufacturing export, merchant export, whether export house or trading house, whether they carried out domestic sales or whether they worked as agents in addition to the core manufacturing activity. There were some firms which took up merchant exporting of some products in addition to their own manufacturing.

The first group consisted of firms which had the status of export house or trading house and/or did domestic sales. In short, catering to both local and export markets. Some firms acted as merchant exporters for taking up and selling goods of smaller firms.

The second group of firms was firms that did not carry out merchant exporting at all. Merchant exporting is an activity where firms did not manufacture the products that they exported. This is taken up in the initial stages of export business when firms try to develop export contacts. It is a strategy where firms may not have built up enough scale to send products on their own, so they use the strategy of pooling production from a number of sources and ensure uniformity of quality by using the services of external organizations or agents of the buyer and send products. The firms uses the activities of cooperatives or self help groups which take up stitching and finishing activities.

The t test for small samples was calculated to observe whether final key success factor scores varied significantly between these two groups.

**H<sub>0</sub>:** there is no difference between the mean scores of present success factors of the two groups divided on the basis of activities undertaken.

**H<sub>1</sub>:** there is significant difference between the mean scores of present success factors of the two groups divided on the basis of activities undertaken.

The null hypothesis of no difference between the two groups was rejected as the calculated value of the t statistic was 1.827

The table value at degrees of freedom 18 and 95% confidence was 1.7341

**Inference:** It was important to know whether there was a change in the factors that were aiding the performance of the firm in the present situation. The case study evidence and other general interviews pointed to the importance of some factors that aided firm success. Drawn from case studies twelve factors were identified, the importance of which was rated by exporters, when placed in no particular order. The factors were then pooled under three heads to aid inference building.

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It is at this point that the ‘trust ‘in the relationship needs to be explored. The literature on trust is vast and it is closely related to the governance literature. The trust in the relationship is manifested by the length of the trading relationship primarily, and factors like the nature of communication, credit offered, nature of contractual relationship and nature of decision making. In discussion with survey exporters orders were often conveyed by phone or fax, and terms of payment were adjusted or negotiable in all cases.

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*Work organization* considered aspects like dyeing and weaving strengths of the company, design and sample development strengths, management of work flows within the firm, sourcing ability and timely delivery

#### 7.3.4.4 Present Key Success Factors (Pooled Factors)

**Table 7.8: Pooled Factors Affecting Firm Success in 2010**

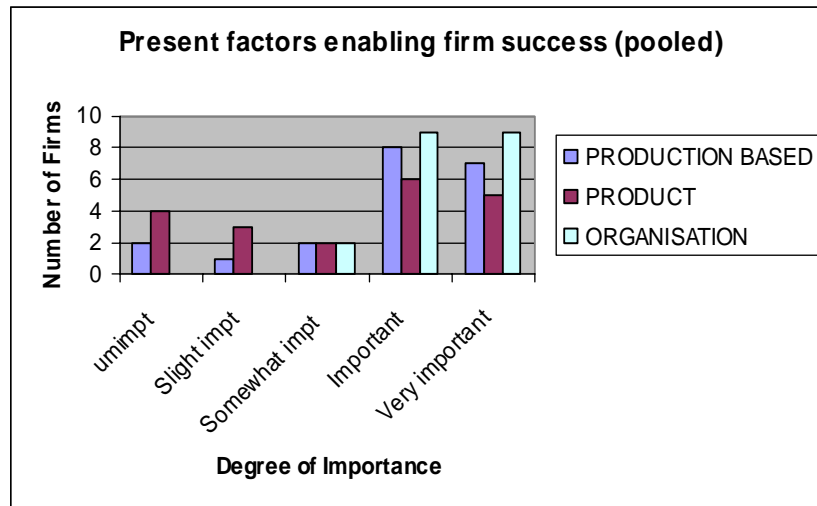
Factors	Unimportant	Slight Important	Somewhat Important	Important	Very Important
Production Based	2	1	2	8	7
Product Based	4	3	2	6	5
Organization of Work	0	0	2	9	9

**Inference** In examining the degree of importance of the pooled factors across survey firms, all three aspects are important, but the greatest importance is attributed to work organization where ninety percent of firms have rated as important or very important. This supports the case study evidence about the importance of dyeing and weaving as well as the sample development processes being central to firms' success. The management of work flows is crucial to fashion oriented products and the use of buyer agents, checking work practices at three stages is documented. The case study firms also exert governance on their suppliers by their weekly or daily assessment of production completion at their supplier premises. The importance of sourcing a combination of products is also highly valued.

Product based factors have been considered as unimportant by four firms. The handloom origin was not important for most firms, as was large scale and price competitiveness. Low price was not a factor that was considered important to firms.

In an examination of the present factors that firms felt were instrumental to success, factors like the management of work flows, sourcing expertise and timely

delivery were very important, as was the dyeing and weaving strength. It is seen that there is a changing emphasis from product centered aspects such as innovative fabrics, and handloom origin, to process related benefits that buyers needed.



**Figure 7.3: Pooled Factors Enabling Firm Success in 2010**

The survey also shows that the use of government incentive for exports, cash incentives or supported fair participation was considered unimportant to firm success. The off take of government schemes may not have been promoted much in the initial stages of export. An inward looking policy was followed in the early years, with import substitution being the by-word. A true thrust towards an export oriented policy began only after the liberalization of the economy. This may have affected the extent to which firms made use of the government sponsored practices to promote export marketing.

### **7.3.5 Non Parametric Tests Used To test Results**

#### **7.3.5.1 Sign Test for Matched Pairs**

This is used in the following cases:

- a) To compare sample means or medians from two populations which are not independent. This may be when
  - One wants to measure the same sample twice as in before and after studies



- Sample is rating a particular attribute twice at different times.
- Sample is rating two different attributes at the same time.

Requirement for this test is (Israel, 2008: p 57):

- Data is to be measured on an ordinal scale
- No assumptions about the form of distribution in two populations
- Data should be obtained by the same sample at same time about rating of a set of attributes.
- Only those pairs having a difference score (+ or -) sign are considered. Tied cases are eliminated from the analysis.

**H<sub>0</sub>:** There is no difference in responses obtained from sample about different attributes affecting the performance of the firm at the initial stage and at the present time of the survey.

**H<sub>1</sub>:** Alternate one tailed test is that the final success factors are more important or causes improvement in output of the firm than initial factors.

The attributes are grouped into initial factors affecting success and present factors affecting success where comparison is made between:

**Table 7.9: Initial and Present Success Factors Compared Across Sample**

Personal Contact With Buyer	Lineage Of Firm/Trust With Buyer
Personal Selling	Length Of Relationship
Company Agent	Sourcing Expertise
Handloom Origin	Handloom Origin
Innovative Fabric	Design And Sample Development
Quality Of Dying And Weaving	Dyeing And Weaving Strength
Standards Of Buyer	Management Of Work Flow
Buyer Agent	Timely Delivery
Buying Office	Consistent Quality

The matched pairs are given above. Though the attributes are different the ratings are taken at a single time. So this test can be used.

$$Z \text{ value} = \{2 R - n\} \div \sqrt{n}$$

R= number of + or – signs, whichever is applicable

N = effective sample size

+ sign represents an increase in the second factor, compared with the first, or the ‘after’ score is greater than the ‘before’ score (present factors have increased success compared to initial factors’ importance). If the ‘after’ score is more a ‘+’ value is assigned. The null hypothesis of no difference is rejected if a large number of plus signs is seen. It means the present success factors have caused a increase (+) in firm performance as evidenced by their greater sample means.

Here the assumption  $P (+) > P (-)$

Calculated value of Z is:

$$Z = (2 \times 110 - 20) \div \sqrt{20} = 44$$

Table value  $Z = 1.64$  for 95% confidence.

The null hypothesis was rejected. The alternate hypothesis that present success factors cause improvement in output of firm was accepted

### **7.3.5.2 Wilcoxon Signed Ranks Test for Matched Pairs**

Here the magnitude of difference between the ranks obtained by the two groups in addition to the corresponding sign for differences is given. This test is more efficient than the sign test because the differences can be quantified rather than just positive or negative signs (Aczel and Soundariapandian, 2002: 683 cited in Israel, 2009)

**H<sub>0</sub>:** there is no difference in the response of sample with respect to initial and final success factors means

**H<sub>1</sub>:** final success factors are more important than initial success factors

Wilcoxon's T is given by the smaller of the absolute of the positive and negative differences total.

The difference between the two sets of factors (initial and final success factor means are summed up separately. Positive differences and negative differences are summed up separately

Smaller of the absolute value of the positive and negative difference total is selected and it is called the Wilcoxon T.

If calculated value is less than or equal to critical T value, then null hypothesis should be rejected.

Wilcoxon's T- critical value from tables = 60

Calculated Wilcoxon's T is the smaller of positive and negative differences. It was  $\sum (-) = 5.6$

As calculated Wilcoxon's T is less than the table value, the null hypothesis is rejected. The hypothesis that final success factors are more important is accepted.

### **7.3.5.3 Freidman's Two Way ANOVA**

This test is used to analyze the ordinal scaled response given to several attributes or elements by n number of objects or individuals. It is useful to find out the consistency of ranking by firms. How consistently have they ranked a set of attributes? Ordinal data is used. Interval data is converted into ranks. The sample size should be equal across groups.

The Freidman's two way ANOVA was used to examine the consistency of rankings given to 'initial factors affecting success of firm.

These were first pooled into the four groups of firm related factors, product related factors, buyer related factors and government related factors.

These four sets were given ranks according to the importance given by each firm. The hypotheses are:

**H<sub>0</sub>:** there is no difference in the rankings given to different sets of attributes.

**H<sub>1</sub>:** there is significant difference among rankings given to different sets of attributes.

Friedman's statistic is given by the formula

$$X^2 = \frac{12}{Nk(k+1)} \sum_{j=1}^k R_j^2 - 3N(K+1)$$

N – Number of blocks or number of rows. Here the number of firms is taken

K = Number of treatments or number of columns

R = sum of ranks in the jth treatment group.

The X<sup>2</sup> critical value for k-1 degrees of freedom in the tables and 95% confidence is 7.815.

The calculated value of the Friedman's X<sup>2</sup> statistic is given by 11.358

If calculated value is greater than table value the null hypothesis of no difference is rejected.

The alternate hypothesis that there is difference among the rankings given to the different sets of attributes by survey firms was accepted.

**7.3.5.4** Friedman's two way ANOVA is used to examine the consistency of rankings of 'present factors' affecting firm success.

The hypotheses were:

**H<sub>0</sub>:** there is no difference in the ratings given to present success factors by the firm

**H<sub>1</sub>:** there is difference in the ratings given by firms to present success factors

The Friedman's statistic formula is

$$X^2 = \frac{12}{Nk(k+1)} \sum_{j=1}^k R_j^2 - 3N(K+1)$$

The calculated value of the Friedman's statistic is 9.975

The  $X^2$  critical value for  $k-1(3-1)$  degrees of freedom in the tables and 95% confidence is 5.991

As the calculated value of the statistic was greater, the null hypothesis was rejected. There is significant difference in the rankings given to the present factors affecting firm success.

## 7.4 Analysis of Upgrading

### 7.4.1 Sources of Upgrading

**Table 7.10: Extent of Upgrading Within and Between Firms in the Value Chain**

Evidence of Upgrading	Yes	No
Within Link- 1. Increasing designing skills 2. Designers in buyer market	17	3
Between Links- 1. Cooperating with secondary suppliers 2. Cross functional teams with buyers 3. Working with suppliers 4. Training and target setting for suppliers	17	3

**Inference:** In examining the sources of upgrading a distinction is made between upgrading that happens within the firm itself or '*within link*' and between firms through combined actions or through pooled processes, called '*between links*'.

Survey showed that the within link upgrading was undertaken by most firms in increasing their designing skills, and by the use of designers in buyer markets on contract or paid on commission. Increasing designing skills of firms is a natural progression for firms which have been exporting fashion oriented or differentiated products for long periods. Developing their design competencies is the natural next step. This is done through recruiting of qualified designers from the region.

The presence of institutes of teaching and training fashion design instituted by the state government has been in operation since 1986 providing a diploma in

fashion design or in weaving technology. An NIFT (National Institute of Fashion Technology) was commissioned in 2006 and became operational in 2009. Establishing of a central institute of design in Kannur has been done with the purpose of developing designers who can meet home textile design needs.

Between links or between firms, upgrading of processes is seen. 85% of firms have expressed that they interact with their suppliers, work with them for order fulfillment and apply controls for quality and product standards. Setting of targets is done for suppliers and training or information about specific weaves to be followed or designs to be done is done with supplier. Cross functional teams was also done with buyers to enable orders to be done better. There was an interaction with buyers which enabled firms to better their products.

#### **7.4.2 Upgrading: Predominantly Affirmative Factors**

**Table 7.11: The Predominantly Affirmative Areas of Upgrading**

<b>Factor</b>	<b>Yes</b>	<b>No</b>
Buyer Inventory	13	7
Delivery To Final Store	12	8
Logistics Support	20	0
Sellers Agent in buyer's market	14	6
High Quality Printing	16	4
Special Treatments	17	3
Stiching/Embroidery	18	2
Low Value Out Of Firm	20	0
High Value Out Of State	20	0
Total	16	4

**Inference:** In examining the ways in which upgrading occurred, irrespective of the origin of upgrading seventeen factors were identified. These were informed by the case study discussion and by the handbook that provided areas where

upgrading was commonly seen, and could be identified. An attempt was made to know whether or not firms had carried out these processes. Among the seventeen factors nine were predominantly affirmative. This means firms expressed their agreement to the question as to whether these processes were done or not.

All firms expressed that low value activities which no longer generated much revenue were done out of the firms. This included the handloom weaving activity which did not generate revenue, fitting of tassels to products, stitching process may be outsourced or the use of methods having lower cost of production may be employed.

High value processes, fabric treatments, and high quality printing, chemical treatments of fabric were done in locations out of the state as the required facility was not there within the cluster. Maintaining the buyer’s inventory in the factory and delivery to the final store were activities that were less commonly undertaken. Logistics were again suppliers’ responsibility.

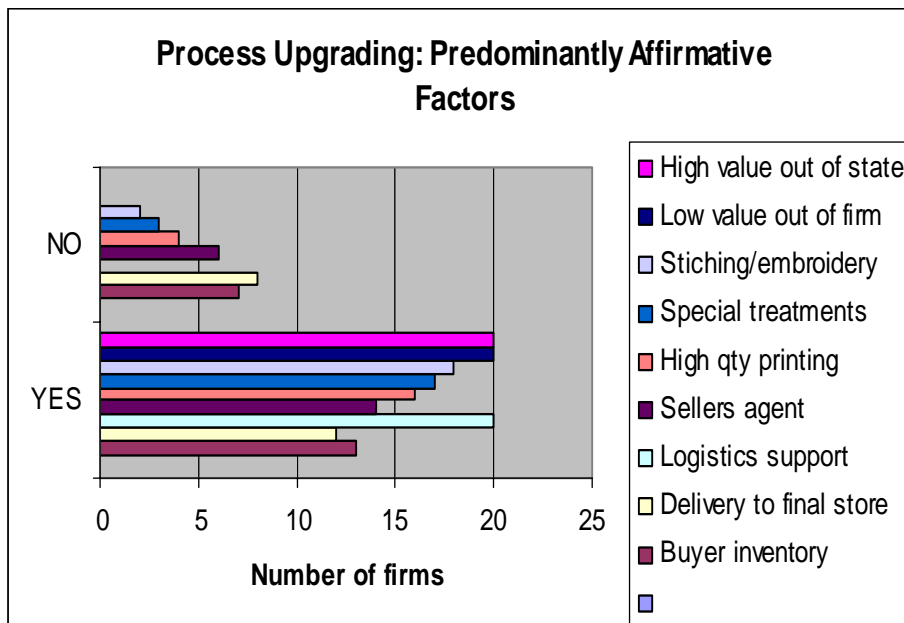


Figure 7.4: Indications of Upgrading Activities Taken Up by Firms

Process upgrading by individual case studies with firms is carried out. This is done in different ways. The introduction of improved finishing equipment, the organization of work process around the needs of buyers sample development requirements, the stoppage of low value adding activities, the employment or adoption of services located out of the firm and in buyer markets for clearer identification of buyer market trends and designs. These are activities which go beyond buyer specifications. Methods by which these are done include:

- a) Dispensing with low value added activities within the firm, introducing superior finishing equipment and efficiency of the work organization, that in all three cases involves a number of secondary suppliers, and particular process executors (silk embroidery, mat weaving etc)
- b) One of the aspects that emerge from studies is that though the transfer and diffusion of knowledge enables firms to improve their performance and upgrade (Humphrey and Schmitz, 2004), it is seen that some governance structures that enables firms to take up new functions or perform with greater efficiency may also create barriers to the acquisition of other functions which are higher value added because they interfere with the capabilities of their buyer firms and may challenge their supremacy in this. These are functions like designing and marketing capabilities.
- c) It is seen that survey firms also exhibit strong process upgrading as seen in the predominance of the number of firms agreeing with the specific activities of upgrading undertaken in firms. High value functions have been taken up by firms though it is done by firms out of the state. Low value functions are moved out of the firm. Particularly the handloom weaving activity has been transferred to secondary producers and power looms within the cluster and out of



Kannur, when it became uneconomical to carry out large scale handloom weaving within the firm.

### 7.4.3 Aspects of Upgrading not Commonly Taken Up by Firms

**Table 7.12: Upgrading Possibilities Not Commonly Undertaken**

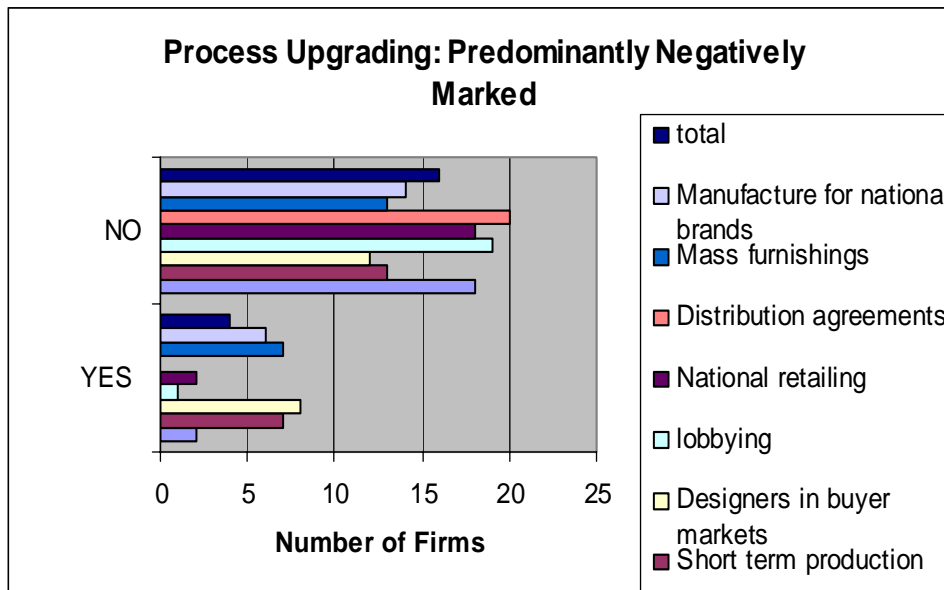
Factor	Yes	No
Brand Development	2	18
Short Term Production	7	13
Designers In Buyer Markets	8	12
Lobbying	1	19
National Retailing	2	18
Distribution Agreements	0	20
Mass Furnishings	7	13
Manufacture For National Brands	6	14
Total	4	16

**Inference:** In many developing country firms, processes which may be a threat to the buyer are never encouraged. This is seen from the literature. Own brand development is one such possibility which is rarely seen among supplying firms.

Short term production or increasing frequency of production and smaller lots or volumes of products is a capability that calls for responsiveness and more flexible production. Firms are mostly called on to develop products for the next season and the planning for this is done with a time gap of six months. Production closer to the selling season is not commonly done though 35% of firms did carry this out. 40% of firms used the services of designers in buyer markets to improve their sample development and design inputs.

Having been exposed to international markets much earlier and having knowledge of their markets, the designs that sell and seasons colour changes, a

question may be asked as to whether this knowledge may be used in the domestic market. the retail industry is booming in India and for many firms the natural progression would be to exploit this to their advantage , but domestic distribution or developing of a showroom or outlet to enable national level retailing were never even considered by 90% of firms.



**Figure 7.5: Aspects of Upgrading Not Commonly Undertaken**

A scale increasing measure for firms was to enter into institutional markets or mass markets like hotels, hospitals, resorts or training institutions for specific needs. This was seen by 35% of firms. A second strategy is manufacturing for national brands, according to their specifications. This was done by 30% of surveyed firms though a majority did not cater to the national market by any means.

#### **7.4.3 Areas of Upgrading: Factors Pooled Across Categories**

The importance of different kinds of upgrading to survey firms, whether of the process through methods that range from technology improvements, ICT or SCM improvements, to human resource based, or of the product through the use of specialized treatment, or the taking up of buyer functions in logistics or inventory

management was analyzed through the selection of fifteen important sources of upgrading. This was informed by the case discussions and by examining case study firms' assessment of the order winning and order qualifying characteristics. The lists of factors were supplemented by examining potential areas of upgrading from a research perspective. These fifteen factors were rated in their degree of importance to the supplier and pooled across five categories. The categories were in core business areas of new product developments, infrastructure related improvements, HR improvements, quality improvements and retail readiness.

**Table 7.13 Upgrading Activities Pooled Across Categories**

<b>New Product Development Aspects</b>	<b>Infrastructure Improvements</b>	<b>HR Improvements</b>	<b>Quality Improvements</b>	<b>Retail Readiness</b>
Sample as per buyer requirement	Machinery investment	Improvement of personnel skills	Certifications Taken up	Final packing and labeling
Designer generated sampling	Scale of operation improvement	Improvement of qualification		Logistics to final buyer
Fabric catalogues development	E Business capabilities			Forecasting based on sales
Sample Product Suggestion				Tailored sourcing
R& D & Design Development				

*New product development* aspects considers aspects like the design development, designer generated sampling, sampling as per buyer requirement, suggestions of product samples and fabric catalogue development.

*Infrastructure improvements* were related to investment in plant and machinery, increasing the scale of operation, or ICT Improvements.

*Human resource improvements* and *quality improvements* were the next two aspects. *Retail readiness* considers the aspects like maintaining buyers inventory

in factory, tailored sourcing, demand forecasting based on buyer sales enabling flexible production, or logistics to final buyer.

**7.4.3.1 Upgrading: Process Efficiency Improvements (Pooled Factors)**

**Table 7.14: Degree of Importance of Pooled Factors**

	Unimportant	Slightly Important	Somewhat Important	Important	Very Important
New Product Development Related	1	1	2	6	10
Infrastructure Related	1	3	6	8	2
Human Resources Improvements	2	5	4	9	0
Quality Improvements	1	1	5	8	5
Retail Readiness	0	5	4	8	3

**Inference** When the groups of factors are analyzed in their importance ratings to the firm, it is seen that the greatest importance was given to the *new product development related* factors. In case study evidence the importance given this aspect was highlighted by individual firms and inferred from the cross case analysis. In many cases firms felt that it was the key factor that increased their bargaining power in the buyer-seller relationship.

*Infrastructure and quality improvements* were key concerns. Firms, somewhat belatedly felt that increasing infrastructure was an important area of upgrading, as also getting quality certifications related to worker welfare or social standards. Due to the length of the buyer relationship, many firms did not have quality issues with their buyers. The firms’ own standards were acceptable to them.

The ability of firms to meet *retailer requirements* was considered somewhat important by firms, but not very important. Few firms in the survey were able to provide aspects like tailored sourcing or forecasting based on buyer

sales figures. Logistics to final buyer and final packing and labeling were carried out by all firms.

## 7.5 Analysis of Aspects of Governance

### 7.5.1 Predominant Aspects of Legislative Governance

**Table 7.15: Aspects of Legislative Governance Predominant in the Cluster**

Factors	Yes	No
ISO Standards	11	9
State government enforced pollution control	16	4
Other Equivalent Standards	19	1
Firm Standards	18	2

Governance means that the activities and interactions along a value chain reflect some form of organization rather than being simply random. It involves the establishment of parameters regarding processes, products, and logistics to be followed by value chain actors up or down the chain, and the actions of whom may have different consequences. They have different roles and functions, and these are usually monitored.

Among legislative governance measures or ‘rule setting’, by firms which may be lead firms or controlling firms it was necessary to see what were the common methods of governance exerted by firms. These may be exerted by buyers themselves or by out-of-chain participants like laboratories or agents. The common sources of governance were assessed in the industry.

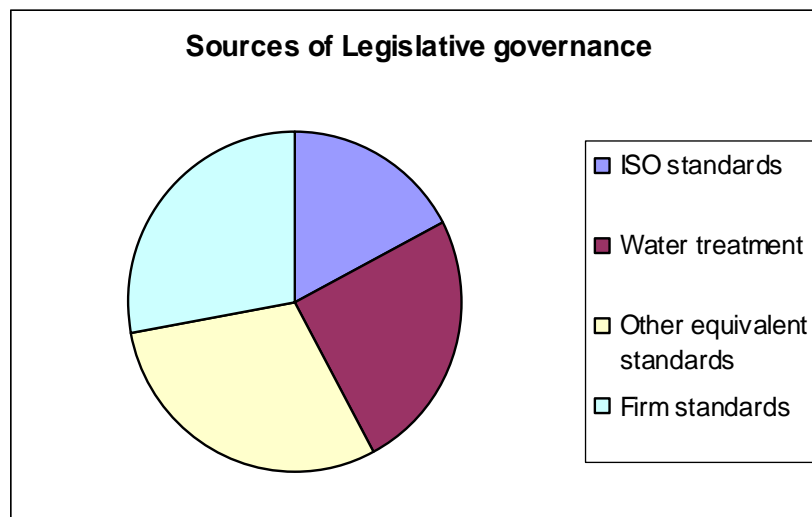
Nine sources of governance were assessed. The first option was the ISO 9000 standard which is a process standard that is internationally agreed upon and which are enforced by certifying bodies.

Water treatment facilities are enforced by state government bodies as part of the pollution control measures. Other equivalent standards refers to the buyers own standards. These are firm specific standards, supporting a brand name or retail chain that often relates to a product class or processes to be followed in

firms. Firm standards are the supply firm’s own standards regarding product and process, which all their products must adhere to.

Firm standards and buyer’s own standards were commonly adhered to according to the survey. Only 55% of firms had adherence to ISO 9000 standards but it did not appear to be a limiting factor for orders.

Pollution control board enforced standards for water treatment was done by firms which had their in house dyeing facility. The use of this facility was decreasing, and few firms were able to carry out dyeing in their premises, but eighty percent of firms used this facility.



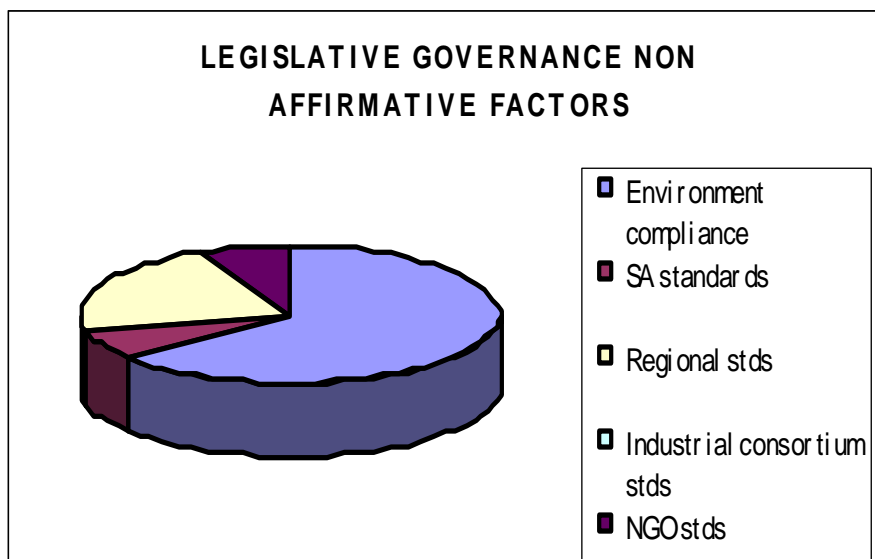
**Figure 7.6: Sources of Legislative Governance**

### 7.5.2 Aspects of Legislative Governance Not Common In Survey Firms

**Table 7.16: Non Affirmative Aspects of Legislative Governance**

Factors	Yes	No
Environment Compliance	9	11
SA Standards	1	19
Regional Standards	3	17
Industrial Consortium Standards	0	20
NGO Standards	1	19

The legislative governance sources that were hardly in use in the firms were NGO based standards, industrial consortium standards, regional standards, environmental compliances measures and social accountability standards. Environmental compliance was done by forty five percent of firms. But other relevant standards like the SA standards were uncommon. The case study evidence also revealed reluctance for firms to take up the social accountability measures.



**Figure 7.7: Legislative Governance Aspects Not Common in Firms**

### 7.5.3 Use of Statistical Tests to Examine Legislative Governance Ratings

Cochran’s Q is a good non parametric test to examine the significance of dichotomous variables measured on a nominal scale. The preconditions are, data should be measured on a dichotomous scale, and the number of columns or treatments (the aspects about which responses are required) should be greater than two. The advantage of this test is that there is no minimum or maximum number of respondents or treatments. It is approximately chi squared distributed so its significance can be tested.

The Cochran formula,

$$Q = \frac{(k-1)[k \sum_{j=1}^k G^2 j - (\sum_{j=1}^k G^2 j)^2]}{k \sum_{j=1}^k L_j - \sum_{t=1}^N L_t^2 j}$$

Where

- k = the number of treatments (columns or groups)
- N = Total respondents (number of rows)
- G<sub>j</sub> = number of successes per treatment (number of I<sub>s</sub>)
- L<sub>j</sub> = number of successes per respondent.

The Hypotheses are:

**H<sub>0</sub>:** There is no significant difference in the responses given to legislative governance factors by firms.

**H<sub>1</sub>:** There is significant difference in the responses given to the legislative governance factors by firm.

The calculated value of Q is 35.70

The table value of the chi square statistic at 0.05 level of significance and (k-1) or 4 degrees of freedom is 9.488. As the calculated value is higher than the table value, the null hypothesis is rejected. The responses of firms to the ranking of different aspects of legislative governance differed significantly.

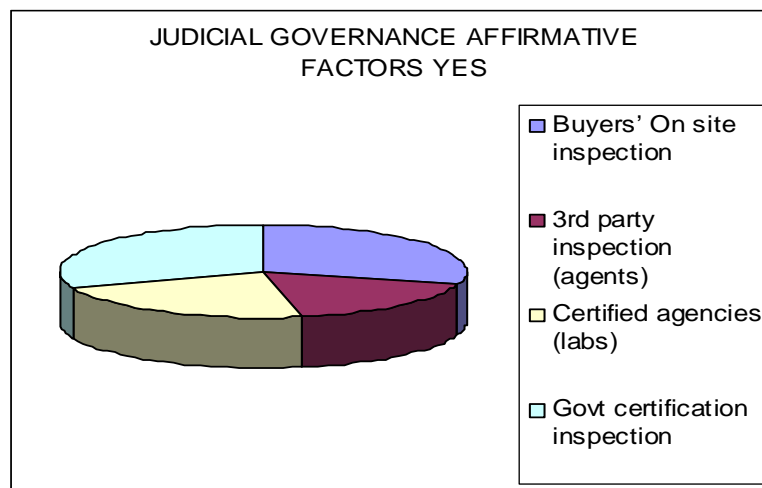
#### 7.5.4 Judicial Governance Affirmative Factors

**Table 7.17: Judicial Governance Aspects Seen Among Survey Firms**

Factor	Yes	No
Buyers' On Site Inspection	19	1
3 <sup>rd</sup> Party Inspection (Agents)	11	9
Certified Agencies (Labs)	14	6
Government Certification Inspection	20	0



Judicial governance measures are the methods by which buyer firms monitor the performance of suppliers in meeting standards. This may be done within the chain, by buyers themselves, or by key links, which producers need to attain, or external to the chain, by civic bodies or by government or regional offices. It is seen that the sources of judicial governance that was significant were inspection of the factory premise during buyer visits (within the link or within the chain) or the use of other firms. These may be buyer agents which take up these additional functions for them or certified laboratories which may be in the business of providing these services to firm, related to quality assurances and assessment thereof.



**Figure 7.8: Aspects of Judicial Governance Common in Firms**

The state government related rules regarding physical infrastructure of factories, the labour related rules and regulations and working conditions are enforced by checking by government staff on an annual basis.

In examining whether the judicial governance was exerted it was seen that all government related laws were regularly enforced on an annual basis, for survey firms.

Buyers or their representatives were directly involved in providing judicial governance by onsite inspection of factory premises. This was seen in ninety five percent of firms surveyed.

The use of laboratories which were involved in quality enforcement was done. Many buyers used the ‘sealer approved sampling’, where the product was sent to the laboratory and a report of the quality parameters was sent to the buyer. The survey revealed that seventy percent of firms reported to being exposed to this.

The role of agents in product inspection and certification was decreasing. In earlier years agents had a primary role in securing orders and carrying out inspection, but their bargaining power was now decreasing as many firms dealt directly with buyers. This was supported by survey evidence. It may also be said that for many firms the length of buyer relationship made inspection by agents unnecessary.

## **7.6 Sources of Fabric Production (Yarn to Fabric Conversion)**

**Table 7.18: Source of Fabric Production Carried Out by Firms**

<b>Source</b>	<b>Yes</b>	<b>No</b>
Firm’s Own Production	16	4
Power looms in Kannur	15	5
Cooperative Societies	10	10
Individual Weavers	14	6
Karur/Tamil Nadu Based Power looms	15	5

An important aspect that emerged from the case study research was that production of fabric from yarn was being done from a number of sources. These were the cooperative societies within Kannur, the individual weavers in the region, the power loom operators in Kannur and the use of power loom production outside the state, based in Tamil Nadu. This was in addition to production in the firm’s own premises, if any. Questions were asked to survey firms about their sourcing of fabric to understand whether a multiple sourcing strategy was followed.

From the survey it became clear that firms relied on all these sources of production. The reliance on in house production may not be in a large scale.

A decreasing dependence on cooperative societies as a source of production was evident as it was least preferred as an option. The increasing use of power looms as a production source is seen.

The Kannur based as well as Karur based power loom production is used as a second preferred source. What is the implication of this for the study? The case study findings about the falling importance of cooperative societies as centers of production, together with an increasing dependence on powerlooms are strengthened.

It may be the preferred source of production at a later time, when firms can no longer afford handloom production. This finding has implications for the Kannur Home textiles recognized as having a Geographical Indication (GI). A geographical indication is endemic to a region, or must be stated as ‘having a process or product that uses the skill or specific ability of a region or locality’. When the origin of the fabric is out of the Kannur region, do such products qualify as being locally produced?

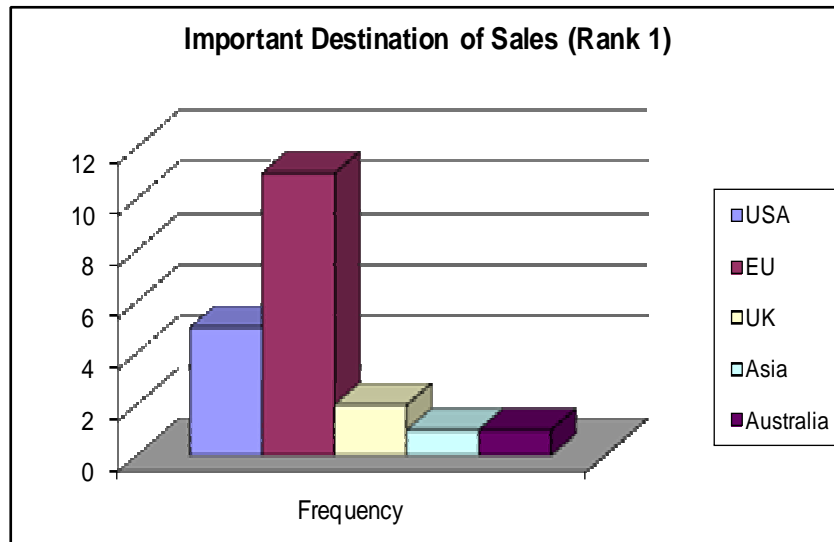
## 7.7 Major Countries of Export

**Table 7.19: Major Destinations of Export (Rank 1 Tabulated)**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>USA</b>	5	25.0	25.0	25.0
<b>EU</b>	11	55.0	55.0	80.0
<b>UK</b>	2	10.	10.0	90.0
<b>Asian</b>	1	5.0	5.0	95.0
<b>Australia</b>	1	5.0	5.0	100.0

In order to understand the major buyer markets of the survey firms, they were asked to rank their major countries of export in terms of revenue. This was to understand whether there was any similarity to case study firms.

It was seen when the firms ranked as most important were listed, the EU based buyers were the most important to revenue. Among the countries of the EU that were specifically mentioned were Germany, Switzerland, Finland, Norway, etc. The US was the next preferred market. The UK buyers contributed to firm revenues in less numbers, and buyers in Asia and Australia were few.



**Figure 7.9: Major Destination of Sales (Rank I)**

In the study a strong emphasis on EU based countries is seen, followed by the UK and then US based buyers. A number of countries are destinations, which shows that firms have many buyers. They do not try to focus on particular countries or retail segments that are easiest to enter (low entry barriers) and serve.

**Table 7.8: Analysis of Major Buyer Segments Important To Cluster**

<b>Buyer Segment</b>	<b>Frequency</b>	<b>Percent</b>
Value Based Retailers (value offering-large volume- low margins-fair quality)	1	5.0
Retail Chains (better quality & price-lower volumes)	9	45.0
Individual Retailers (higher value-less volume –consistent quality)	5	25.0
Importer Wholesalers ( particular product categories)	2	10.0
Catalogue / Mail Order companies	3	15.0

### **7.8 Major buyer segments important to firms (Rank 1 tabulated)**

The buyers that the supply firms in developing countries cater to are themselves of different types depending upon the nature of the industry they are dealing with, the differentiation that is achievable with the product category and their annual turnover. Firms may traverse the continuum from mass market retailers to exclusive showrooms. Market intermediaries like wholesalers, distributors and stockists vary in the various functions they take up. Survey firms were asked to rank their preferred buyer segments (significant to company revenues) from I through V.

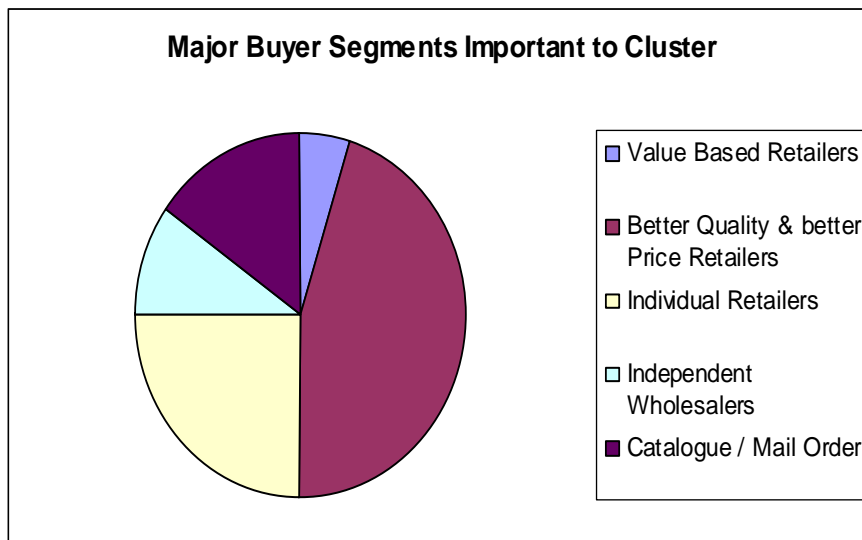
*Value based retailers*, having an emphasis on low price like IKEA and Wal-Mart, was not a preferred customer group as seen from the table. This supports the case study evidence as discussion revealed a marked reluctance to take up mass market retail orders though they were high volume.

*Retailers offering better quality and price*, and with lesser volume of orders was the most preferred buyer group. This is in keeping with case study evidence where firms were particular about quality they offered. They also did not attempt to offer low prices, as providing a huge volume was not strength of the region. Products had moderately good margins.

*Individual retailers with higher value products*, lifestyle goods, specialized products with more margins and less volume of order was the second ranked buyer segment. Case evidence also revealed that at any given point of time 25-30 private label products would be in the making.

*Catalogue or mail order companies* represent an important customer group which sells goods through product catalogues or by mail. A strong emphasis on quality, consistency of offering and adherence to standards- usually enforced by private organizations or international bodies – is mandatory. Social or worker related welfare standards must be strictly followed. A strong degree of judicial governance is exerted by these firms.

Entering into supplier or vendor relationships with catalogue companies is not easily done, since these companies rarely cater to the mass market. They have high degree of product exclusivity, strong emphasis on branding, and parent product lines, that may be running for years with regular and continuous buyer loyalty. They are almost zero tolerant about quality defects or factory related controversies as the negative media attention may seriously harm their reputation.



**Figure 7.10: Major Buyer Segments of Importance**

Large importer wholesalers act as trading houses with storage facilities for a large variety of products. They develop the contacts with suppliers or producer firms for particular product categories and procure from them. They also demand fair quality and price, as their orders may be more consistent and volumes higher.

The survey data showed that the least contribution came from value based retailers. Better quality and better price retailers were more important to the revenues as was the individual retailers. Independent wholesalers were also seen to contribute.

## 7.9 Nature of Value Chain (Typology of the Chain)

**Table 7.21: Nature of Value Chain Relationship with Most Valuable Customer Group**

Type of Chain	Yes	No
Arms Length	0	20
Networks	13	7
Quasi Hierarchies	8	12
Hierarchies	0	20

McCormick (2001) developed a set of descriptors to define the nature of value chain relationships. Their classification is based on the number of customers and suppliers, length of their relationship, nature of information flows, degree of technical assistance provided, firm capabilities etc. Firms were asked what was the nature of the value chain relationship with their 'most valuable' buyer (in revenue terms).

The survey revealed that firms did not consider themselves to be in hierarchies, or in arms length based relationships at all. The arms length relationship is short, limited in its interactions, repeated, and with no buyer involvement either for technical knowhow or its implementation. It is

characterized by a generic product which can be made by a number of suppliers. As a result suppliers are changed rapidly and with little warning.

The hierarchical relationship is a vertically integrated one with supply firms having very little autonomy for taking decisions at the local or factory level, regarding volume of product, the technology to use, the delivery, the use of vendors etc. the buyer looks into all these aspects and has stringent rule about the same.

Firms in a *network* are characterized by intense information flow in both directions. Both sides have hard-to- substitute capabilities which are used to leverage the relationship. This enables supplier firms to have various customers with which they solve problems through negotiation, combined decision making and joint action. A reciprocal relationship with the buyer exists. Buyers have few suppliers and with those few, the interactions are regular, on a daily basis and communication informal. Sixty five percent of firms saw themselves as being in *network based relationships* with their most valuable buyers, and in *quasi-hierarchical relationships* to a lesser extent.

Some of the firms surveyed checked two options. This meant that they felt that they were also in *quasi-hierarchies* with some buyers. This is characterized by a strong involvement of the buyer. He defines the product, specifies the design and states its technical specification to the supplier. He also assists the supplier and monitors his performance. This is probably because more than fifty percent of the product made in the factory is taken by that buyer. For this reason the dependence of the supplier on the buyer is high and his exit options limited.

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## META – INFERENCES AND DISCUSSION OF PROPOSITIONS

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### 8.1 Discussion of the Propositions through Integration of the Evidence

Mixed method research has been called the third methodological movement by Tashakkori and Teddlie (2008) in the social and behavioral sciences, joining the quantitative and qualitative research alternatives. Though it is still in the formative stage and there are a number of ongoing debates within the field over issues like basic definitions, research designs and how to draw inferences in mixed method research, it has become well established, with many followers and journals devoted to it.

An important issue that arises is what does mixed method research offer that quantitative and qualitative research methods can't offer independently? Those advocating for the method describe the development of '*meta inferences*' about the phenomenon under study that is achieved by addressing both exploratory and confirmatory questions, and gathering enough evidence that enables answering both perspectives of the study.

Tashakkori and Teddlie (2008: p 101) describes a 'meta inference as "*an overall conclusion, explanation or understanding developed through and integration of the inferences obtained from the qualitative and quantitative strands of a mixed method study*".

They describe the importance of an 'integrative framework' (p 105) for making validity claims for mixed method research. The integrative framework

seeks to distinguish between *inference quality* (an attribute of the process of meaning making and/or its outcomes) and *data quality* (attribute of the inputs to the process of meaning making).

## **8.1 Discussion of the Propositions through Integration of the Evidence**

### **8.1.1 Firm, Relational and Resource Based Rents are Significant to Manufacturing Export Firms**

*Survey results:* An examination of the survey results regarding what the initial factors were that enabled firm success reveals the following: a strong predominance of firm based factors and product related factors in the initial stages of export marketing. The personal contact between buyers and firms was enforced through personal visits, or the use of samples shown to buyers, by firm proprietors themselves or the firm's own agent.

Could this have led to the predominance of the relational rents that are seen through the case study evidence and survey results? Personal contacts at the early stage of export generation between buyers and sellers not regulated through the use of third parties or agents, leads to trust being established in the relationship. It leads to a dependence that goes beyond the fulfillment of an order. The supplying firms take on the role of advocacy. They are so involved in the next season's sample generation and design development process that the firm's work is centered on this activity. This is seen from the evidence. Relational rents both up and down the chain, expressed through the multiple manufacturing methods, the suppliers of other processes like tassel fitting or mat weaving, the specialized activities taken up, enables the producer firms to provide a range of finishes, highly variable products, vastly different quality offerings and responsiveness- this enables providing very different offerings to different buyers, but the ability to do so with the sourcing skill and organizational capability of a uniform work process that needs to be customized for specific orders. Relational rents are thus very significant to manufacturing export firms.

The survey evidence reveals a predominance of firm related actions and fabric/product related strengths that drove the industry in the initial stages.

**Case study evidence:** In trying to understand the nature of the industry through the case study evidence, the following aspects can be inferred:

- 1) The home textile business is clearly driven by the relational rents that are seen both up the chain with the buyers, and down the chain with the second tier producers and other support organizations.
- 2) Resource based rents which were based on aspects of the product like handloom origin, quality of dyeing and weaving and the inherent 'heaviness' of fabric, which lent itself to furnishing and upholstery needs were significant in developing a market for the products from the region, which otherwise had no organized or collective government or policy related backing. The innovative fabrics from the region immortalized in 'Kannur crepe', 'mission mundu', and kora or calico bears testimony to the localized skill and inherent geographical advantages like softness of water. The extended yarn processing technique inherent to the region and wet dye process are endemic to the region, and sadly, are no longer considered crucial to the export trade from Kannur.

From a combined perspective of the survey and case study it can be said that inherent strengths of the region related to the water quality, processing and dyeing operations, as well as the weaver skills which at the initial stages were instrumental in building up the handloom furnishing industry are no longer sources of rent that are dynamic, or enable systemic competitiveness. A continuous and ongoing depletion of natural soft water sources, combined with a decreasing dependence on the wet dye process has decreased the benefit of this. In fact the dyeing process shifting out of the area to dye houses in Tamil Nadu, shows that dyeing, as a value adding process, is no longer dependent on the water or dyes used. Ability to centralize the operation, carry out the dyeing at economical rates, and having the

environmental compliances needed for dyeing- these were the new necessities for the highly regulated textile trade. This was being taken up efficiently by firms out of the cluster and as a result, it was no longer a capability. As most of the firms were following the same process, it was not a source of rent for the region. By these factors alone manufacturing export firms of home textiles cannot claim to have high road growth paths.

- 3) Within the firm, technological advancements, the use of the TUF, investing in large scale of operations, or high end machinery has not been a priority. Firm S was an exception to this scenario. Did it improve the firm output significantly?

The firm S spoke of the need to reduce the variability of orders and increase scale through larger orders to get the benefit of this additional investment. They felt that an increased spend in the dyeing capabilities of the firm was required, to truly benefit from the use of the rapier loom.

- 4) The other endogenous factors such as the human resource capabilities, the organization of work and the marketing rents appear to be invaluable to firm success. The employee loyalty at higher levels of the chain, the trust between and within the chain members, both within the organization and with other chain members especially down the chain, among secondary suppliers has enabled customization to be built into the order delivery mechanism. The knowledge of current product and process standards, the mechanism to ensure buyer's legislative governance requirement is met and the use of several sources of production, to carry out orders of different variety and scale is a capability that enables firms to have more bargaining power in the relationship with the buyer.
- 5) The organization of work or the process by which orders are carried out, from the development of the sample, to the final shipment of orders calls for coordination of a set of activities. These are not mechanical processes that involve making a product that the buyer designs and specifies, but has a

design component, and the utilization of sourcing abilities that are pooled together to obtain results.

- 6) Marketing as a source of rent is significant. This can be related to the nature of the relationship that firms have with suppliers. The use of fairs as a method of sales promotion is actively and regularly carried out with the objective of meeting new buyers, or developing new markets since the case study firms recognize that traditional markets are saturated. There appears to be no barriers to supplier firms seeking out customers or prospects, and the aim of the firms is to create a display at stalls that emphasizes the *innovativeness* of their products. A strong drive towards this goal is seen in all marketing related actions. The ability to actively search for markets is enhanced by the thrust on the research and development based activities as a source of rent. New product development is a cornerstone of their activities and this is enhanced by the demands of the buyer segments that they serve.
- 7) From the case study evidence the external or exogenous sources of rent such as the policy support schemes or financial aid, or the use of specific organizations to aid the sector has not been highlighted. In fact an apathy towards the needs of the home textile industry was suggested by several respondents and in general interviews. These rents are constructed outside the corporate sector and are generally reflected in state or central government actions that are outside the purview of individual firms. There was a marked preference to promote the production, market promotion and product development strategies of the cooperative societies, while there was not enough thrust on development of the industry that was entrepreneurial in its roots and established long before export of any kind was actively done from the country. An increased policy thrust at the initial stages of development, or greater organized action to mould policy initiatives towards their interest at the embryonic stage of the industry would have changed the industry fortunes. In this mature industry stage with many traditional export

markets saturated with competitors, policy action, of any kind, can be easily undermined.

- 8) The industry has benefited from the endogenous rents. These are generated by individual firms. Though new technology to increase scale or variety of products produced has not been actively taken up by the firms (firm S is an exception) the establishment of an integrated textile park (ITP) in the district commissioned in 2005 and finally opened in 2010 bears testimony to the fervent need of the exporting community to increase scale, to pool or combine certain cost intensive operations like dyeing and water treatment and to expand their industrial infrastructure.

In an examination of the present factors that firms felt were instrumental to success, factors like the management of work flows, sourcing expertise and timely delivery were very important, as was the dyeing and weaving strength. It is seen that there is a changing emphasis from product centered aspects such as innovative fabrics, and handloom origin, to process related benefits that buyers needed.

The survey also shows that the use of government incentive for exports, cash incentives or supported fair participation was considered unimportant to firm success. The off take of government schemes may not have been promoted much in the initial stages of export. An inward looking policy was followed in the early years, with import substitution being the by word. A true thrust towards an export oriented policy began only after the liberalization of the economy. This may have affected the extent to which firms made use of the government sponsored practices to promote export marketing.

From the discussion of the meta inferences, the firm based and relational rents are significant to the manufacturing export firms, but the resource based rents represent a dissipating source of rent.

### **8.1.2 Legislative governance is more significant to firms than judicial or executive governance**

#### *Case Study Evidence*

- 1) In examining the case study evidence the importance of the act of governance is highlighted. Humphrey and Schmitz (2008) describe that this does not always occur in value chains. In arms length markets, for example a firm may make a product according to its own estimation of demand, using a design that has no inference to a particular product. This may be for a standard product, and using production facilities it selects or develops. Though it happens, it is made possible by the role of intermediaries who facilitate flows of information about supplier capabilities and innovations and about buyer requirements (Spulber, 1996 cited in Humphrey & Schmitz, 2008)
- 2) Among manufacturing export firms in Kannur the question about what is governed is clearly set by supplier firms themselves, when dealing with their second tier manufacturers, or by buyers. This is when the governance originates within the chain. In some cases governance originates outside of the chain, through internationally accepted standards, through regional standards (rarely), private and mandatory standards like retailer specifications or legally binding market access agreements or through external agents like NGOs or watchdog organizations like Oxfam.
- 3) The case studies reveal a clear prevalence of '*what is to be produced*' and how much is to be produced, but less emphasis on '*how it is to be produced*, though aspects of quality systems, labour standards and environmental standards are emphasized. The rules regarding actual production processes to be followed, or technology to be used are not seen to be specified as hard and fast rules.
- 4) The case study data about governance reveals a strong predominance of product and process parameters. This helps to control risk (Humphrey and

Schmitz, 2008). Product quality is linked to process controls, to provide assurances through developing quality procedures. This is especially true in mechanical or technically linked industries.

In industries which rely on brand, reputation, retail presence, or are highly risky (food based or child related product areas), the importance of parameter setting in the case of products and processes is vital. It means that buyers must supply both process and product specifications to suppliers and introduce systems that ensure products and processes meet the required standards. If this gap between what firms are capable of delivering and what they are expected to deliver is high, buyers need to invest in a few selected suppliers and help them to upgrade (Humphrey & Schmitz, 2008). This was first highlighted by Keasing and Lall (1992) who argued that producers in developing countries are expected to meet requirements that frequently do not apply to their domestic markets. This creates a gap between the capabilities required for the domestic market and that required for the export market and may lead to increase in the monitoring and control required by buyers (Gereffi et al, 2005).

Why is governance necessary? To understand this, it is necessary to consider the changing nature of international trade and industrial organization. Gereffi et al (2005) state that the activities that a firm carries out is dependent on what technology is combined with labour or material inputs, and how processed or modified inputs are assembled, marketed or distributed (Kogut, 1985, cited in Gereffi et al, 2005).

The important aspects that firms decide on relate to which activities and technologies are retained by firms in use, or which are outsourced to other firms and where the various activities should be carried out.

- 5). Product and process parameters can be set by firms within the chain (or by agents contracted for the purpose by these firms, or by external agents. How these parameters are adopted also needs to be examined. In the first case



lead firms or dominant buyers may expect certain quality norms to be followed by suppliers. These are specified by dominant firms themselves. In this case lead firms or their agents have to verify this.

In the second case lead firms are required to conform to a process standard or code of practice for which an independent monitoring or certification system exists. Example of this is the ISO 9000, ISO 14000 and SA 8000 Standards. This may be checked for correctness of adoption by the lead firm itself, or by external agents who independently check and monitors the degree and correctness of adoption.

In the third case, lead firms may set or specify quality systems or usage norms, about the use of child labour, or specific conditionalities, but do not directly involve a monitoring mechanism. Firms have to develop their own monitoring system. In the final case parameter monitoring and enforcement is dictated by independently monitored process standard or code of practice. This means products or process of the supplier must be certified as conforming to ISO, SA, or ISO 14000 but certification is done by independent agencies.

- 6). Lead firms or buyers are constantly trying to reduce the cost of direct monitoring and shift towards a process of external certification. This becomes possible only when the parameters are widely applicable and have credible means of external monitoring and enforcement (Gereffi et al, 2005). It is seen that on introduction of labour standards, or new process parameters, they are initially enforced by lead firms. As standards become more generalized, external systems of enforcement develop.
- 7). Legislative governance measures seemed to cover the whole gamut of standards from the ISO 9000 to environmental compliances, to SA 8000 Standards and government specified factory act based standards. But did buyer firms themselves involve in *enforcing* these standards?

The case study firms never mentioned buyers involved in quality enforcement, though they visited the suppliers premises at least twice a year. This means that enforcement was taken up usually by independent monitors, enforcement agencies, or third parties. Independent monitors may be agents external to the chain, like government agencies, and the monitoring processes are also in their hands. Private voluntary standards developed by groups of enterprises may be used to introduce and enforce particular parameters for production across a broad range of suppliers, e.g. British Retail Standards, European Flammability Standards and REACH standards, to name a few. Regional standards are used as a form of product differentiation and collective branding. BSCI standards which were adopted by firm M may have been done to improve its acceptability to European buyers. An important aspect mentioned by all firms was that state government agencies were very prompt and regular in enforcing the government regulations.

- 8). If production is carried out across varied geographic space and between firms, the control of these fragmented activities and their coordination becomes important. The different types of value chain relationships may be explained by this aspect.

Gereffi et al (2005) relies on three explanatory variables to describe the type of chains that exist in value chain relationships:

- a) The complexity of the information that needs to be transmitted between different actors in order for the transaction to be successfully completed.
- b) The extent to which this information can be codified and therefore transferred efficiently and without investment in transaction specific relationships and
- c) The level of supplier competence in relation to the requirements placed upon them.

In response to the questions about how cross border production is coordinated, across companies and between countries, the role of governance is imminent. The *extent* of how much governance and for the control of which aspects, is often dependent on three factors mentioned above.

- 9) Transaction asset specificity: Williamson (1975) cited in Gereffi (2008) is used to explain the differences in how trade is organized. According to him, when assets or investments are specific to particular transaction, then more complex inter firm relationships must occur. The more customized the product or service, the more likely are transaction specific investments required to be made by buyers. This also leads to greater interaction and greater coordination between inter firm relationships. This increases transaction costs. An example can be seen when complex designs for the next season's release are planned at the supplier premises. For the major buyer of firm H planning for the season's release is a complex exercise, involving travel of design staff or technical staff from the UK, a period of intensive design development in supplier premises with their supplier's own quality control and supervisory staff, to produce samples of the proposed fabrics at an external location (cooperative society) that is vertically integrated into their suppliers organization, but where design development is carried out with great confidentiality and the stringent quality.
- 10) This seems to ascribe to the statement in Gereffi et al (2005) about how greater coordination leads to more transaction costs:

..non standard inputs and integrated product design architectures involve more complex transfers of design information and therefore intense interactions across enterprise boundaries. Integral product architectures are more likely to require non standard inputs and changes in the design of particular parts tend to precipitate design changes in other areas of the system (Fine, Langlois and Robertson, 1995 cited in Gereffi et al, 2005, p: 23)

Gereffi et al (2005) say that coordination or mundane transaction costs arise when value chains are producing non standard products, products with integral architecture, and products whose output is time sensitive.

- 11) Humphrey and Schmitz (2008) state that transaction specific investments and the incumbent transaction costs they entail can be achieved without direct ownership of the facilities that provide this. Standard products that require no complex information exchanges can be transacted through arm-length market transactions. In the case of non standard products the instructions and information needs to be codified. This enables competent suppliers to meet supply chain needs. If not codified or tacit knowledge extended interaction and complex interactions are required.
- 12) The ability to supply customized products without complex interactions becomes possible when information is codified and communicated easily. Though each product is specific to the customer, instructions on how to make it are relatively easy to transfer, and suppliers can enter and be taken out of value chains according to the product need.
- 13) Relating this to the degree of governance is important. In many markets which depend on product differentiation to sell their products, it is important that lead firms set product parameters. For producers who rely on differentiating products from those of competitors, and are which are from industries which are strongly affected by seasonal changes or fashion trends, the importance of parameter setting is high. In such situations buyers own designers may provide the overall design instructions, or detailed design. In many cases the particular product may be part of a broader product differentiation strategy which involves matching a variety of accessories, then the buyer has a greater coordinating role (Humphrey & Schmitz, 2008). This is particularly seen in the home textile industry which is also fashion based.

- 14) An examination of the organization of work suggested by case study firms and in an assessment of the role that the buyers play revealed the following aspects: lead firms increase complexity when they place new demands on the value chain, such as when they seek just in time supply or increase product differentiation. But they also adopt strategies to reduce the complexity of these transactions by the development of technical and process standards. This allows the codification of information and enables the development of a fluid and flexible network structure. Differentiation becomes enabled by a set of unambiguous and widely accepted parameters that may be defined by public or private institutions that set standards or grades. Process standards and certification of quality, labour and environmental outcomes also perform the function of conserving human effort, through the use of system elements or modules- this is demonstratable in an examination of the organization of work. Silk embroidery is carried out at Bangalore, hand embroidery of fabric or children's apparel at Kochi, tassel fitting at Wadakara, mat weaving by Star weaving works, voile sourcing from Tamil Nadu, fabric treatments in out of state location. A gamut of very different and item or product specific activities, that may or may not be needed for specific items is at hand for firms to use *if* deemed necessary by companies, or dictated by buyers. Gereffi et al (2005) calls this value chain *modularity*, where suppliers and customers can be easily linked and de-linked, resulting in a very fluid and flexible network structure. A large volume of non price information flows across the inter firm boundary, but in a codified form. This is enabled through the unambiguous and widely accepted parameters.
- 15) Supplier competence is also dynamic because it varies according to the value chain needs. New demands or requirements about products can be learned or acquired through associating with buyers who demand specific abilities or activities to be carried out by suppliers. New requirements or changing needs of the market may cause some activities to become

redundant, while new skills or abilities need to be built up. In such cases buyers may have to invest in a few selected suppliers and help them to upgrade, if the gap between their knowledge levels and what is required is very wide.

- 16). Case study data have shown a supplier relationship that goes beyond a few years. In most cases the major buyers were those who had been with the company more than ten or fifteen years back. This shows that buyers were confident about the abilities of their suppliers and were willing to invest time and money into their acquiring new skills or abilities or in learning activities that would help them develop innovative products.

#### **Examination of Survey Data**

- 1) The survey evidence points to the importance of legislative governance measures in the cluster. The process parameters that are imposed by independent agencies and checked by them are common among the survey firms. Significantly ISO standards are well entrenched. So also the firm's own standards are seen as acceptable to buyers according to the survey. The water treatment standards set by the state government pollution control board are seen as important sources of governance.
- 2) The acceptability of firm standards for buyers points to the belief in the capabilities of the supplier. Product and process specifications have been followed for extended periods that complex information flows are no longer costly. In the earlier stages of business development, new requirements of buyers would have led to extended and transaction specific information flows between buyers and suppliers, which were non codified, and thus costly. Over a period of extended order fulfillment these requirements may have become codified and easily transferable over networks.
- 3) The survey also pointed out types of process standards that were not well entrenched. Environmental compliance on the lines of ISO 14000 was not

seen in the survey, so also the social accountability standards for labour was not seen in many firms

The adoption of regional standards and industrial consortium based standards which may be created for marketing or for penetration into particular regions was not commonly resorted to by firms in the survey.

- 4) Judicial governance refers to the methods by which process and product parameters set, either by buyers themselves or by independent monitoring or certification systems is *enforced*. The survey shows that monitoring and enforcement occurs both within the chain itself (by buyers on site inspection or agents acting on behalf of buyers) or by the use of certifying agencies. Laboratories that independently carry out testing for product specifications on behalf of buyers, also take up the enforcement activities. The state government rules for factory regulations, labour related regulations and environmental regulations are also important source of judicial governance, which is often linked to the sanctions being enforced, in case of non conformance.

### **8.1.3 Quasi Hierarchical Chains are the Dominant Typology of Chain Seen among Home Textile Manufacturing Export Firms in Kannur**

The four kinds of relationships or typologies of value chains that are discussed in value chain literature relate to the nature of chain governance and the kind of upgrading activities one expects to find as a result of the kind of governance patterns.

As mentioned in a different section, the four types of relationships suggested by Humphrey and Schmitz (2000, 2002) are the arms length market relation, networks, quasi hierarchies and hierarchies. Arms length markets are seen when the product is easily standardized and a number of firms can meet the buyer requirements. Switching costs are less.

Networks are those where cooperation and information intensiveness is key. Essential value chain competencies are divided between firms. Reciprocal dependence is commonly seen. Buyers specify certain product characteristics and parameters and would be confident that supplier can meet them.

Quasi hierarchies: this is the typology one expects to find in developing country firms linked to global markets because one firm or the buyer firm exercises a high degree of control over other firms in the chain. They do this by strong governance measures. This means they specify what is to be produced, what processes are to be followed, how much to be produced and when it should be done.

The hierarchy is more of a vertically integrated chain where the buyer takes direct ownership of some operations in the chain. In such cases supplying firms have very little say over what is produced in their premise and how. It is often taken up by the concerned buyer.

The quasi hierarchical chain is most commonly seen in value chains with developing country suppliers. Literature includes the Brazilian shoe cluster (Navas aleman & Bazan, 2002) and the Taiwanese computer cluster (Kishimoto, 2002). Gibbon (2000) describes how clothing manufacturers in Mauritius were involved in such chains while Quadros (2002) described the state of the Brazilian auto parts industry.

Humphrey and Schmitz (2003) drawing from the literature stated above describes how developing country firms were mostly entrenched in quasi hierarchical relationships. The reasons were: the buyer seeks to define the product and/or the buyer is exposed to considerable risk if suppliers fail to perform. The same explanation of the need for product definition – this is through buyer specification of the product. He understands the demands of the market and may use product differentiation as part of the competitive strategy. Design and branding needs mean precise product and process specification needs to be



conveyed to supplier. More control of chain activities is required. Another aspect is that non price factors such as quality, response time, reliability and delivery, concern about safety etc are more important to buyers.

According to the literature developing country firms enter into quasi hierarchical relationships because of suppliers' lack of knowledge about product and process followed minimum required standards. Buyers otherwise have a need in making the suppliers transactionally dependent on them to reduce the risk of their possible opportunism.

However another aspect that emerges from Humphrey and Schmitz' (2003 p 18) discussion is that "as capabilities of suppliers improve and diffuse the need for monitoring and control declines".

#### **Examining case study evidence**

The case study firms have been involved in meeting product needs of their global buyers for more than twenty years. When one looks at the average length of buyer relationships, they cannot be classified as firms new to the business. They also undertake more activities than are traditionally taken up by firms in quasi hierarchies. Though local producers improve their production processes, attain consistency and high quality and increase their speed of response to customer orders, buyers rarely encourage their supplying firms to develop, design or marketing competencies. This is because it may overlap with their buyer's competencies (Schmitz and Knorringa, 2000). Even leading export manufacturers for many years refrained from making substantial investment in design and market and were satisfied to remain subordinated. The reason for this was the fear of upsetting their main buyer.

The typology of chain relationship was expected to be a quasi hierarchical one, as seen in other developing countries, but the evidence points to the presence of network like linkages:

- 1) The case study interviews discussion about the sources of rent revealed marketing activities undertaken by firms as a source of rent. Yearly participation in two or three fairs, with an emphasis on potential markets, use of designers in buyer markets to obtain a better idea of designs and trends, yearly meetings with buyers, emphasis on innovative designs in fair stalls, visits abroad to general and home based exhibitions show a strong marketing orientation. The interviews revealed that existing buyers did not prevent or resist market development activities of their producing firms.
- 2) The nature of work organization which was centered on buyer needs for rapid new sample development and speedy action directed towards the manufacture of innovative products and the research and development activities were centered as a source of rent go against the phenomenon of 'truncated upgrading' (Humphrey & Schmitz, 2003) common in quasi hierarchical chains. Chiu and Wong (2002, 11), in Humphrey and Schmitz, (2003, 14) described that

....the weakness of local suppliers in marketing and the tight control of overseas buyer distribution are just two sides of the same coin. Underlying this business arrangement is such power asymmetry that a buyer's approval is always prior to anything done on the part of a supplier, leaving most suppliers with few choices but to take buyer's orders and sales forecast as the primary source of market information. Information asymmetry of this kind helps explain why a local supplier is prone to get locked into the subcontractor role.

- 3) This was not seen among the case study firms. Tight control of market conditions, or information asymmetry did not seem to mar their prospects as their frequent fair visits, personal buyer contacts and strong emphasis on innovation in sample development, particularly for fairs was a proactive and market seeking orientation. Though the buyers exercise a high degree of control over other firms in the chain, specifying the characteristics of the

product that they want produced, they do not concern themselves over the processes or technology to be followed and the controls to be put in place to ensure product and process parameters are followed. Neither did they restrict the supplier firms from negotiating with other buyers. Many new suppliers in the country were introduced to the buyers for specific needs, through their existing suppliers. A two- way trust based relationship, that was non adversarial, and power symmetric at least to the extent of supplier centered parameters, is seen, in all three cases.

- 4) Parameters for process and specification of products is rarely enforced by buyers themselves. They use independent monitoring agencies and the certification by internationally accepted bodies to convince themselves of their supplier's capabilities. In short codification of buyer instructions limits their transaction costs.
- 5) Over and extended period of time, it is seen in case study firms that tight control have been relaxed. A reliance on buyer standards is resorted to particularly when trust builds in the relationship. Buyers are confident of supplier capabilities and are satisfied by their service delivery parameters so as to enable repeat orders not over two to three years but over fifteen years. This itself indicate that manufacturing export firms have built up relationship oriented linkages that border on the network topology.
- 6) This is as a result of extended interaction; trust in the chain manifested by weekly and day to day contacts, informality of communication, information intensive relationships, with buyers closely interacting with suppliers – a reciprocal dependence, borne out of years of working together.
- 7) Ultimately the buyer expects certain product and process standards to be achieved but would be confident that suppliers could meet them.

- 8). In fact it would be correct to say that the typology exhibits what Sturgeon (2002) describes as a ‘*modular production network*’ in Gereffi et al (2005) – going beyond just being called a network typology. The feature of this type of linkage shows a marked similarity to the kind of relationship existing among the case study firms. The features are:
- a) Buyers purchase *customized products (season specific, trend specific)*
  - b) Usually (but not always), products *are designed by buyers or buyer interactive processes and tasks organized between buyers and suppliers*. They exchange information regarding the products, designs and specifications; this is aided by the buyer on suppliers’ premises for short periods linked to the next season releases.
  - c) The interactions become less complex through the use of *codified instructions*.
  - d) Suppliers use *generic machinery*. This can be used for individual order processing as and when required by the specific order.

Suppliers have the necessary skill for the task they undertake, and this reduces the buyers need for continuous monitoring. This means that even though products are specific to each customer, the level of transaction dependence is low. The advantage is that different suppliers can be inserted or removed from the value chain. Buyers have various suppliers across their products and suppliers work for various customers.

#### **8.1.4 Product and Process Upgrading is Seen in Manufacturing Export Firms**

The nature of the value chain also affects the kind of upgrading that occurs within and between firms. Four types of upgrading that are distinguished are process upgrading ( reorganizing the production system, or introducing superior technology, product upgrading (moving into more sophisticated or improved

product lines which have more unit value), functional upgrading (the take up of new functions to increase the skill content of activities) and intersectoral upgrading or value chain upgrading.

On examination of the nature of upgrading activities undertaken within firms and between firms, the following is observed.

- 1) Process upgrading by individual case studies with firms is carried out. This is done in different ways. The introduction of improved finishing equipment, the organization of work process around the needs of buyers sample development requirements, the stoppage of low value adding activities, the employment or adoption of services located out of the firm and in buyer markets for clearer identification of buyer market trends and designs. These are activities which go beyond buyer specifications.
- 2) Dispensing with low value added activities within the firm, introducing superior finishing equipment and efficiency of the work organization, that in all three cases involves a number of secondary suppliers, and particular process executors (silk embroidery, mat weaving etc).
- 3) One of the aspects that emerge from studies is that though the transfer and diffusion of knowledge enables firms to improve their performance and upgrade (Humphrey and Schmitz, 2003), it is seen that some governance structures that enables firms to take up new functions or perform with greater efficiency may also create barriers to the acquisition of other functions which are higher value added because they interfere with the capabilities of their buyer firms and may challenge their supremacy in this. These are functions like designing and marketing capabilities.
- 4) It is seen that survey firms also exhibit strong process upgrading as seen in the predominance of the number of firms agreeing with the specific activities of upgrading undertaken in firms. High value functions have been taken up by firms though it is done by firms out of the state. Low value

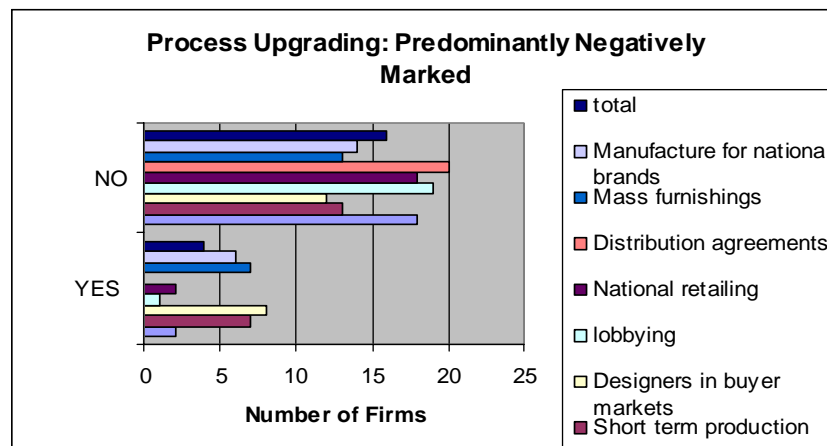
functions are moved out of the firm. Particularly the handloom weaving activity has been transferred to secondary producers and power looms within the cluster and out of Kannur, when it became uneconomical to carry out large scale handloom weaving within the firm.

- 5) That the predominant typology is network based chains is seen in the strong dependence of buyer firms on their suppliers. This is seen in the strong mutual commitment between firms and the expression of complementary competencies. Shared design development, better value enhancing machinery, better qualified design staff, increasing sample development capabilities, allowing the benefits of better final buyer prices filter down to suppliers, provision of an order execution mechanism that allows for sourcing other products or treatments as the order requires, in streamlined and specific ways, provides support for the modularity of the network.
- 6) Both parties contribute to innovation in the chain due to the interaction between the suppliers and buyers. Humphrey and Schmitz (2003) have shown that collaboration between users and producers is important in the design of new products. Meyer Stamer et al (2004) show the competitiveness of the ceramic tile producers of Sassuolo in Italy depended on innovations carried out with the equipment producers.
- 7) In many industries the market leaders require the complementary competencies of the equipment or material suppliers. Danish makers of dairy equipment or the link between Italian tanneries and producers of leather goods are examples. A similar reliance on the specific strengths of the manufacturer exporters is seen by case study firms.
- 8) Among the survey firms the emphasis on functional upgrading and value chain upgrading is reduced. The number of firms that have taken up distribution agreements or entered into local retailing is few. The existence of designers in buyer markets and shortened production times, or lobbying

activities is greatly reduced. It is fair to say that though learning takes place through interaction between manufacturer and supplier, the extent to which supplier firms can take up branding activities or retail entry, or enter into tailored sourcing or continuous reorder contracts based on demand forecasting (an activity that allows access to buyers weekly sales figures), is limited.

### 8.1.5 KSFs Have Moved From Product Based to Process Based Factors

An analysis of the factors which were important for firm success was assessed through the survey. The objective was to examine whether there was a change in the kind of factors that contributed to firm success. Did these have an effect on the sources of rent the firm had?



**Figure 8.1: Process Upgrading: Predominantly Negatively Marked**

- 1) From the case study reports the firm rents in the form of human resource marketing, Rand D and organization of work were found to be significant. From the survey the factors that initially aided the growth of the industry were mostly related to the firms themselves. Key among this was the personal contact between buyer and seller, personal selling and the role of the seller’s agents. The product related aspects, the fabric weaving and dyeing, quality of colour matching was considered very important.

- 2) The classification of success factors into order winning and order qualifying characteristics were done for case study firms. This was followed by an analysis using radar charts of how firms rated themselves on these norms and to ensure triangulation included a perspective of the buyer. The buyer rated the similar 7 point scale to examine what were the differences in their perspectives. From the CSF analysis also non tangible aspects of buyer specific factors are increasingly stressed.
- 3) In an examination of case study and firm data, it is clear that importance is shifting to non tangible attributes. The organization of the work process, an all in one factory facility, process quality enhancements, getting certifications and improving sampling and designing skills are, among others, the attributes that firms actively seek to enhance. Improvements in HR, Quality, were specifically considered important so also the reduction of the sample development time, and increasing capacity to innovate were particularly important.
- 4) In the case of many firms supplying to developed country markets, the key market segments that firms target focus on the presence of certain 'USPs' which may be similar for most product segments. Price, quality, variety, and delivery related aspects of reliability, frequency and order are commonly touted as important.
- 5) The selection of the factors varies depending on the market niches or the *buyer segments* for which firms make products. According to Kaplinsky and Morris (2001), the different categories of buyer are a key factor determining not just the capacity of different producers to innovate but the areas which they consider important and where they attempt to ensure CSFs. This has implications for producer firms which are involved in sending products to different market niches in the form of retailer segments.



- 6) Non tangible aspects were seen to be increasingly used by firms to differentiate their products. This becomes more common as micro segmentation becomes the norm. The creation of specialized market niches which sell products having specific benefits, often related to lifestyle or sensory aspects or safety aspects is becoming common.

According to Reardon et al (2001) cited in Humphrey & Schmitz (2008: p 265)

A credence good is a complex, new product with quality and/or safety aspects that cannot be known to consumers through sensory inspection or observation in consumption...The quality and safety characteristics that constitute credence attributes include the following:

- a. food safety
  - b. healthier more nutritional foods
  - c. authenticity
  - d. production processes that promote a safe environment and sustainable agriculture.
  - e. 'fair trade' attributes (e.g. working conditions).
- 7) In an environment where such products are becoming the norm, e.g. specialized food products, clothing, children's toys, cosmetics etc claims made by the products cannot be tested for veracity after manufacture and this leads to the importance of process parameters. It needs to be made in such a way that the credence characteristics are actually incorporated in the process, since these may not be obvious in the final product and may not be easily verified by inspection. Certifying the process that ensures these characteristics is important. Here is the role of governance in ensuring process parameters are met. Firms were unanimous in suggesting that quality certifications needed to be taken up to increase credibility of the industry.

### **8.1.6 High Value, Low Volume Retail Segment Represents the Major Customer Group**

In the study of the value chain one of the important aspects is to recognize how producers access final markets. This is because a narrow focus on the competitiveness of individual producers or even a chain of producers may not be sufficient to understand why some firms are better exporters than others.

The different forms of connecting intermediaries will affect the point of entry into global markets and the capacity of individual producers to upgrade. This makes it important to know how producers are linked to final buyer markets and through what kinds of linkages.

1. The case study data revealed that the major retail segments were those that did not focus on low price as an order winning characteristic. Reasonable price was considered important in all three cases. A strong focus on wholesale buyers, or importer distributors was seen among the customers.
2. Some of the importer wholesalers had their own distribution network or took orders of smaller retailers or shops. They fostered the twin advantage of selling goods in their own labels as well as in the labels of the retail outlets to which they supplied goods. They also stocked their own branded items in these outlets. This way they got the advantage of better mark ups for their own brands as well as the distributor's margin when providing goods to the retailers.
3. Low price of products was not mentioned as a key USP of retailers. In fact the cases revealed that supply firms had better margins or could command better prices if they could improve their overall product offering. This included aspects like providing efficient work layout, all in one factory premises, adequate finishing equipments, and a strong emphasis on retailer packaging equipment and materials. The processes that went into the manufacture of the fabric from the yarn were not specified by buyers but they relied on supplier capabilities. The suppliers had an extended

network of producers and though they relied on their in house dyeing and weaving capabilities for sample development, in most of the survey firms a combination of production sources were relied on.

4. The survey data showed that the least contribution came from value based retailers. Better quality and better price retailers were more important to the revenues as was the individual retailers. Independent wholesalers were also seen to contribute. A second part of the buying function is an understanding about what are the key product segments that were important.
5. Though the key home textiles groups were still the predominant product groups, an emphasis on non tangible benefits in these categories, strong branding strategies, and strong quality based certifications, related to fair price, organic cotton or labour related standards was seen. Though physically products may not look different, their attributes are considered different.
6. Credence good attributes are seen adapted, by these categories. Also lifestyle products or emerging product categories in home textiles related to location specific uses like, beach, terrace, lawn, or pool, as well as benefit or activity specific clothing like play clothing, night clothing are becoming high valued added product groups firms are producing. This was also seen among survey firms.
7. A final aspect of the dynamics of buying relate to the countries to which products have been sent. In the study a strong emphasis on EU based countries is seen, followed by the UK and then US based buyers. A number of countries are destinations, which shows that firms have many buyers. They do not try to focus on particular countries or retail segments that are easiest to enter (low entry barriers) and serve.

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**FINDINGS AND RECOMMENDATIONS**

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*“The wealth of Indian textiles lies in its history and continuing ability to create fabrics which seduce the customer.”(Thorn, 2005, p: 37)*

To move forward in a continuously evolving global market, without compromising on what sets it apart is the pressing need for modern Indian textile production. Due to the pressures to compete on price and quantity, existing companies may rush into blind automation discarding the older less industrialized processes which have enabled an industry to survive for many decades. There is nothing more damaging to this industry than mass production. Though it may ensure earnings, it will be faced with increasing competition from other regions which aim to compete on the same characteristics. The challenge is to enable a fusion, where cultural diversity and regional strengths, fuse with trend and market knowledge to produce unique and creative products.

The individual case analysis, the cross case analysis, radar charts and the descriptive survey were structured around the same research questions, though the results of each methodology was analysed separately. The meta-inferences attempted to merge or combine findings side by side, to enable a better examination of the propositions. The findings of each will be discussed separately.

## 9.1 Findings from Individual Case Analysis

Emergent themes that were revealed in all three cases were:

1. ***Decreasing Vertical Linkages***: The vertical linkages within the cluster, with other chain participants were decreasing. The strength of the industry had been its ability to shore up production by carrying it out in different batches or at different locations, using the inherent weaving capabilities and tiered work management practices that principally involved the weavers societies of the Kannur region. This was not a recent practice, but one borne out of years of familiarity, and generations of subcontract-like work arrangements, often with individuals and families situated near entrepreneurial businesses that later became the bigger business houses during the heyday of Kannur handlooms- the ‘crepe’ era and later, in less prosperous times, got organized into societies, still maintaining this working relationship with the export factories and benefiting from the strength of ties between the cluster participants. This was, without doubt, the strength of the region. This ability to break up the order into smaller lots, that then got carried out at a home run or society run establishment, brought in unique advantages to the export firms.
2. ***Locally Sourced Weaver Skills***: The high variety of orders, the number of buyers that could be serviced, the different and variable sizes of production lots, the detail in weaves and design that could be taken up by one society or even, one individual weaver, in his home, the daily or weekly handover of work done- in short- this has been responsible for the reputation that the export firms have built up in home textiles, over decades.
3. ***Weaver Occupations Dissipating***: The indigenous and protracted processing of yarn, and the inbuilt learning of each task in the handloom weaving process, done painstakingly, and with attention to detail- is a learning that comes from the weaving ancestry – the Saliyas, and inculcated through the rigour and precise learning passed down from the Basel fathers- this rare combination is in

danger of being lost, as more weavers migrate to other trades, due to insufficient returns from the extremely labour intensive and exacting process of handloom weaving using all the senses- and combinations of hand and leg movements in succession, in tandem and in precedence.

4. ***Loss of Regional Benefits:*** The export factories and manufacturing establishments- primarily about which this study is about- have not let this affect their incomes, as many processes, like fabric dyeing, powerloom weaving for better cost management, special treatments to fabrics and the provision of item specific accessories, labels and packing has been taken up by other textile oriented regions. Karur, Tirupur, Salem, Erode and Coimbatore were most often mentioned as being surrogate production centers for specific processes or needs. What is lost however, is to the region and to the state as a whole.
  
5. ***Benefits Percolating Down the Value Chain:*** A most promising aspect has been the manner in which the societies in Kannur have evolved. From being passive receivers of orders from large firms, they have in the present time become strongly market oriented and revitalized. Three societies in Kannur have directly exported, while more than a few are engaged in indirect exports even now. This is with firms in Kannur, but mostly with firms outside of the state, located most often in Bangalore, Delhi and Mumbai- big business houses which source from cooperatives. Interviews revealed cutting edge employment of design software, intensive market promotion through national and international fairs, drives towards new product development in local or domestic sales through fairs, and heightened domestic sales and turnover. The societies had ventured into their own made up manufacture, utilizing the 'kudumbasree' or SHG (Self help group) model of women run enterprises, had entered into branded (for the domestic market) cotton and mixed fiber based menswear, were active in the women's apparel (churidhar material) market due to the high popularity of

cotton fabric, and were even upgrading into product categories as diverse as lap top bags, files, ladies handbags and suitcases. This was done besides being well established in the traditional home textile and product categories like bed and bath, kitchen, table and upholstery categories. Is this a testimony to the effects of innovation, learning by doing, continuously weaving world class designs for generations, or is a combination of all this? In their own right they are on the road to export marketing and on this upgrading path, high road growth is enabled it must be said that it is their own linkages up the chain that has made this possible.

6. ***Need for Within Cluster Trust:*** It is important to recognize the contribution of the state and central government schemes in this regard. The center's continuous and substantial support of the handloom industry is already vastly documented. Though not without minor problems, a slew of schemes ranging from the DDHPY (Deen Dayal Hathayagar Prothsahan Yojana) to the IHDS (Integrated Handloom Development Scheme) have been engines of progress, among the handloom based establishments in Kannur. But what they would truly benefit from is a handholding or industrial support program of the home textile export community for learning, execution of specific processes, market entry opportunities or a combined market presence at fairs. The advantage here is that the region would benefit, and the industry would grow because of the healthy rivalry and learning that takes place between industry partners.
7. ***Increasing Governance Through Standards Adoption:*** The heightened interest in pro-labour work structures or in organizations that are strong on worker support and welfare, as well as on the feminization of work force is fast becoming the norm among industries today. Strong customization and individualized service provision in consumer based business platforms, like kiosks, touch screens, ICT based purchase and order management, RFID and ecolabeling- these are all going to be needed especially in mass required

products for the individual. These two trends will go side by side, so a pro-labour or worker supportive industry with strong norms to aid worker welfare will reap gains and become easily certifiable as per the quality standards and norms evolving through the role of internationally accepted or enforceable rules, practices and product and process parameters. This is a reality that developing country firms must live with. The standards will evolve, they will constantly demand more enforcement and they will be more often than not be monitored by independent firms or watchdog organizations, so it is necessary to keep up with this.

8. ***Effect of Recession:*** Macro economic effects have taken a toll on the industry especially from the end of 2007, in the form of decreased consumer spending, curbs on housing loans, decreased home textile off take, weather extremities and extremely slow recovery from recession but a number of schemes like extension of the TUF scheme, ban on cotton exports when the price of cotton yarn became unmanageable, and mitigating the effects of currency fluctuations was taken up by the Centre.
9. ***Government Sponsored Value Enhancement:*** To overcome worldwide effects of unstable economic climates, a positive move towards enhancing the returns of indigenous industry, trades or products through the use of 'labels' authenticating originality of products, like the Handloom mark, Silk Mark for silk products and the GI status (Geographical Indication) status for local or regionally limited production of traditional or indigenous goods is seen in India. Kannur received GI Status for the production of home textiles, furnishings and made ups in October, 2010, and the industry hopes to reap gains from this label.

## **9.2 Findings from Cross Case Analysis and Radar Charts**

1. ***High Investment in Supplier Capabilities:*** Investment in supplier capabilities is high: the cases revealed that buyers spent considerable time and effort on



supplier premises in a cyclical manner, that was seasonal. It was directed by the selling season and was an intensive information sharing and design development exercise, which was never one sided. It was a high risk exercise considering that the products were highly fashion oriented and elastic in demand, and commanded all the capabilities of supplier firms, including their sourcing abilities, the execution of specific processes for each item (made up), that was labour intensive, process intensive, or both. It was a difficult exercise, but it was done, and it was done successfully by firms in Kannur, as seen in the length of buyer relationships, the number of buyers per firm (fifteen to twenty buyers), the increasing difficulty levels incorporated in these products and the product specificity, which was always increasing.

2. ***Increasing Complexity of Buyer Orders:*** Increasing complexity of processes and products is seen. From furnishing rolls, to room based items, to location specific items and to very specific items like mobiles (hanging toys), buntings and nettings- the list is endless. What is clear is that buyers rely on supplier capabilities, demand increasing sourcing and processing skills for home textiles and are confident of the supplier meeting these needs. they go so far as to insist on logistic tasks being taken up by supplier, and demand induced weekly supply agreements being taken up- a staggered production process.
3. ***Information Transfer Codified and Simplified:*** Increased codification of design and information is being done through the intensive use of ICT. The use of independent standards and firm based or regional parameters is increasing. This helps decrease the costs involved in product monitoring. Buyers are hardly getting involved in monitoring standards, relying on testing laboratories and independent organizations to do this.
4. ***Non Tangible Attributes Emphasized:*** Radar charts revealed buyers valued non tangible success factors- reliability in delivery, compliances with

quality standards, sampling and innovative design and surprisingly, valued the handloom origin of fabric far more than their producers did.

### **9.3 Recommendations**

In most network based value chains, the aim of buying firms is to get their products made according to specifications, which may be more or less detailed, with minimal effort. The ability of producer firms should be to be able to produce customized products for buyers and to use flexible machinery to pool capacity for different customers. It means different processes may or may not be incorporated in the final product according to the need of the buyers. Modular networks are a facet of the value chain predominant here. They are largely network based and quasi hierarchical to a lesser extent, but will benefit the most if the competencies are complementary between buyer and seller. Manufacturing export firms would do well to take up the following recommendations:

1. ***Develop New Dynamic Capabilities:*** Rents are dynamic and change according to the barriers of entry that prevent other firms from entering similar spheres of production. As more firms take up similar production of goods, their attractiveness to buyers diminish. As resource based rents diminish, the organization of work, technology and human resources should be channelized into taking up more processes. They should be able to source more activities or value enhancing methods- ‘turnkey’ activities that can be incorporated as and when buyer requires, in individual products, according to the order. In other words, increase modularity of the value chain.
2. ***Strong Relational Rents to Enable Functional and Value Chain Upgrading:*** Even more relevant were the endogenous or chain based sources of rent or relational rents that had enabled the development of a network based typology, and bordering on a modular production network, due to the highly specific and variable end products, and the gamut of processes that they needed to go through. It can be said that despite shortfalls in technology or

lack of scale, the regular buyers of these firms did not shift their orders to other firms in Karur, or Panipat, nor did they attempt to lower price and increase output. A strong personal relationship appears to drive firm actions and these links with buyers should be utilized to enter into new value chains, like domestic retail establishments, given that India is a booming market. Many foreign retail chains are hungering to establish themselves in India, and strategic alliances with suppliers within the country would give them a strong edge in market penetration.

3. ***Decrease Costs Through Codification:*** though firms had long term relationships with their buyer, this was changing as buyers were becoming more insistent on their suppliers' ability to incorporate product and process standards, regional governance, undergo unannounced third party inspections and checking and still come out with no violations of standards or parameters, all without any monetary or cost support from the buyers. Though incorporating standards was costly and certification difficult to initiate, once carried out, they would reduce transaction specific costs as much information will be codified and transmitted efficiently.
4. ***Increase Capability of Suppliers:*** Suppliers in Kannur must increase their acceptance to their preferred retailer segment: individual stores or better quality and price based retailers, by increasing their sourcing capabilities. The multiplicity of processes taken up at the supplier side should be enhanced by keeping the size of their operations small, and the combination of their processing, both within the factory and in association with second tier manufactures, assemblers, stitching units, tassel or embroidery units etc, should remain small scale and highly variant. Two advantages that arise from this. The first is increased value addition of specific products as each of these activities are combined, merged, done in stages or at once. The value enhancement goes up. The second is it takes advantage of the structure of the Indian textile industry. As this is already oriented along the

small scale and tiny enterprise model, benefits go down, perhaps even to individual homes, and not as an exploitative measure, but with monetary benefits as well.

5. ***Emphasise Within Cluster Second tier Linkages:*** the role of the individual weavers or family run enterprise, as well as the cooperative societies, represent social benefits, and labour orientation. Powerloom units in the region have also played a huge role in enhancing profitability when handloom weaving became too costly. This pro-labour stance marketed well, can be a draw to international buying houses and retailers who emphasis CSR based goals.
6. ***Intensive Industry Specific Benefits Required at State or District Governance Level:*** The poor off take or recognition of exogenous rents, related to the infrastructure development, financial support or cluster or region based benefits was a worrying aspect that was depleting the sources of rent and making it difficult for firms to enhance their capabilities and establish themselves in the face of increasing competition from other clusters of home textiles like Panipat and Karur.
7. ***Strong Relational Rents Up the Chain Enable High Road Growth:*** In the home textile value chain of Kannur, though not large in terms of scale of production or earnings of foreign exchange are able to protect themselves from competition by carrying out intensive product development, strengthening innovative capabilities and maintaining strong relations with buyers and intermediaries up the chain. They have been able to consolidate these relationships through years of doing business. Often, in many firms it is the second or third generation of entrepreneurs that run the business. This relationship must be utilized for ODM (own design development) and at a later stage, brand development, that is aided by the better branding and marketing possibilities of foreign buyers.

8. ***Build on Credence Benefits in Products:*** Credence good attributes, that can only be experienced, after consumption of the product and which are incorporated into products by activities in the processing and cannot be recognized in the product after that is increasingly becoming the norm in trade. Firms should recognize what attributes qualify as such in their product classes and ensure the changes to be made in their factory, work or staff organization facilitate the adoption of these attributes.
  
9. ***Trust Based Governance Maintained Down the Chain:*** High trust is maintained in their relations with buyers. They have created a set of rents in concert with their secondary suppliers down the chain as well, that has enabled the creation of specific capabilities. The ability to foster and operate networks and organizational work management systems that facilitate the logistics, quality management, design and marketing needs has been provided to buyers through the socially embedded networks of cooperative societies, individual weavers and power looms within Kannur. They have worked on gaining production efficiencies through job works or alliances with power loom producers often in competing and out of state clusters of industries dealing in similar product classes. The benefit of scale in activities like dyeing and printing, lamination or other finishes is provided by these firms which usually cater to high volume export requirement. These linkages have significantly improved the competitive advantages of the Kannur based firms but have increased their execution costs due to increased transport cost, milk runs, firm staff personally ensuring quality by travelling back and forth etc.
  
10. ***Increasing Horizontal Policies in Region:*** Though decreasing returns are not seen from the case study data or survey, the benefits to the region are decreasing as more activities need to be carried out in other areas, or states. The placement of support industries within Kannur has been almost nil. Though the yarn sourcing and dyes and chemicals are obtained from stockists within the district, other support industries – providing accessory

sourcing, packing materials, special treatments to fabric, larger scaled industries for dyeing, have never been established in the district. The few that were established at a much earlier time were not sufficiently tuned to the contemporary market needs. This had made firms change their existing networks, and initiate sourcing policies usually with firms in other states. Strong horizontal policies specific to home textile industry is called for in the region.

- 11. *Increase Policy Action Specific to the Industry And the Region:*** The high trust network effects can be sustained only if policy rents for learning, monitoring and managing are enhanced. Innovation is enabled through the use of information and institutions that enable this learning. Steps towards the development of institutions and organizations that enhance the maintenance of such sources of rent have already begun. Kannur as a region already has a number of state and central government institutions working towards the skill development of the home textile industry. But how much of this is directed towards specific enhancement of the sources of rent that act as drivers to the home textiles industry? By providing knowledge gains, increasing designer skills through training and teaching institutes, decreasing the supply chain related bottlenecks pertaining to the region or by the development of an industry with a regional presence to enable lobbying at an international or regional level. This is especially relevant in the context of growing importance of standards and parameter enforcement and developing country producers.

## **9.4 Conclusion**

According to Altenburg, (2004), Policy makers increasingly acknowledge the need for close co-operation with strategic actors on the demand side, e.g. private retail or brand name companies which hold the key to market access. To make the most of such cooperation it is important to gain a thorough

understanding of the system and of the way firms are participating in international value chains and production systems.

Through this study it is hoped that an understanding of the value chain linkages and the factors influencing them have been understood, with the scope of being applied to other textile or apparel clusters in the region.

### **9.5 Scope for further Research**

1. The use of the value chain framework can be enhanced by considering to what extent cluster related benefits enhance value chain linkages. A number of studies have examined how local clusters have been incorporated into global value chains. This can be studied by comparing two or more T & C clusters and by examining whether their cluster related aspects support or enhance value chain linkages.
2. A different examination of the economic geography of trade can be carried out by comparing the value chain approach with that of embedded networks, to examine which can better explain the nature of relationships between buyers and sellers.
3. Examining how government policy action has stepped up upgrading in firms and documenting the processes by which this has been enabled over a longitudinal time frame of a decade or two is beneficial to understand what activities have actually yielded results, and what has not.

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# ANNEXURES

## Annexure -I

### Interview schedule

#### Descriptive Survey of the Manufacturer Exporters of the Kannur Home Textile Industry

Dear Respondent,

The purpose of this questionnaire is to carry out a doctoral level thesis in the topic “**Global Value Chain Linkages of Manufacturing Export Firms: A Study of the Kannur Home Textile Industry**”. The information pertains to the nature of relationships, the intensity of information exchange and sharing, the transactional process and the effects on future growth, strategy development and business choice. **The information will remain exclusive, confidential, strictly for academic analysis and under conditions of anonymity.** I, Anoo Anna Anthony, Ph D Scholar at the School of Management Studies, Cochin University, request your cooperation in this regard and solicit whatever further information you may like to share about the cluster in question.

Name & Address of firm :

Email

Subsidiaries :

JVs/Associates      within cluster      within country      foreign country

Industrial classification :

Year of export initiation :

Annual Turnover (2008) :

as a percentage of cluster’s total turnover (325 crores) :

1. **Type of trade activities undertaken**

- |    |                        |       |
|----|------------------------|-------|
| a) | Manufacture exporting  | Y / N |
| b) | Merchant exporting     | Y / N |
| c) | Trading house          | Y / N |
| d) | Export house           | Y / N |
| e) | Agent (Buyers/Sellers) | Y / N |
| f) | Domestic sales         | Y / N |

2. **In the initial stage (first 5-7 years) of your export business what were the product categories that were exported? (Tick what is applicable)**

- a) Furnishing fabric(rolls)
- b) Furnishing fabric (color books)
- c) Bed linen
- d) Bathroom linen
- e) Kitchen linen
- f) Made ups Table linen
- g) Rugs/floor coverings
- h) Any others

3. **In the initial stage of export business what was the importance of the following to further export? Tick what was applicable and rate importance. (1- unimportant, 5- very important)**

- |    |   |           |
|----|---|-----------|
| a) | Seller's agents in India                                | 1+=====+5 |
| b) | Buying offices/ Retailers themselves                    | 1+=====+5 |
| c) | Companies own agent (abroad)                            | 1+=====+5 |
| d) | Third party trading firms                               | 1+=====+5 |
| e) | Merchant exporters in Kannur                            | 1+=====+5 |
| f) | Manufacturer exporters in Kannur                        | 1+=====+5 |
| g) | Government supported fair participation                 | 1+=====+5 |
| h) | Other government incentives –<br>cash/credit /insurance | 1+=====+5 |
| i) | Trade journal export contacts                           | 1+=====+5 |
| j) | Any other factors of singular importance -----          |           |

4. **Over the period 2004-2008 what have been the product classes you have exported (Tick what is applicable)-**

- a) Furnishing fabric (rolls)
- b) Furnishing fabric (for design books)
- c) Bedlinen
- d) Bathroom linen
- e) Kitchen linen
- f) Made ups Table linen

- g) Accessories coordinated by colour and/or design  
 h) Lifestyle goods/ single season additions  
 i) Blinds/Quilts  
 j) Rugs/Floor coverings in cotton base  
 k) Wool/other fabric based coverings  
 l) Clothing coordinated to purpose (nightwear, beachwear, play clothing or party wear)  
 m) Significant others -----

5. **In the initial stage of your export business what do you feel were the driving factors behind achieving relative business success abroad?** Tick if relevant and rate importance ((1- unimportant, 5- very important)

- |  |                              |
|--|------------------------------|
| a) Hand loomed origin of product   | 1+=====+=====+=====+=====+ 5 |
| b) Innovative fabrics e.g crepe  | 1+=====+=====+=====+=====+ 5 |
| c) Quality in terms of counts, number. of defects, colour matching, etc                          | 1+=====+=====+=====+=====+ 5 |
| d) Quality in terms of dyeing brightness, quality of weaving, processes in weaving and Finishing | 1+=====+=====+=====+=====+ 5 |
| e) Personal contacts with buyer  | 1+=====+=====+=====+=====+ 5 |
| f) Standards set by discerning customer  | 1+=====+=====+=====+=====+ 5 |
| g) Contacts with other exporters   | 1+=====+=====+=====+=====+ 5 |
| h) Government incentives for export  | 1+=====+=====+=====+=====+ 5 |

6. **How important have been the following activities to the success of your firm in the period (2004-08)** (1- unimportant, 5- very important)

- |   |                              |
|---|------------------------------|
| a) Introducing new machinery              | 1+=====+=====+=====+=====+ 5 |
| b) Introducing better qualified personnel | 1+=====+=====+=====+=====+ 5 |
| c) Increasing NPD/R&D spend               | 1+=====+=====+=====+=====+ 5 |
| d) Increasing SC and logistics efficiency | 1+=====+=====+=====+=====+ 5 |
| e) Undertaking quality enhancements       | 1+=====+=====+=====+=====+ 5 |
| f) Certifications as per buyer needs      | 1+=====+=====+=====+=====+ 5 |
| g) Increasing e-business capabilities     | 1+=====+=====+=====+=====+ 5 |

7. **What has been the changes undertaken within the firm and with other SC Partners to increase/improve products?**

- |   |       |
|---|-------|
| a) Increasing design skills of firm                 | Y / N |
| b) Cooperating with suppliers in NPD                | Y / N |
| c) Cross functional teams with key buyers           | Y / N |
| d) Designers/key trend identifiers in buyer markets | Y / N |
| e) Working with suppliers to improve quality        | Y / N |
| f) Training and active supplier target setting      | Y / N |
| g) Brand development                                | Y / N |
| h) Establishing national retailing presence         | Y / N |
| i) Distribution agreements overseas                 | Y / N |

**8. Has the firm taken up any new functions in the chain?**

- |    |  |       |
|----|--|-------|
| a) | Maintaining buyers inventory in factory                                  | Y / N |
| b) | Delivery to final store bypassing warehouse                              | Y / N |
| c) | New value chains –technical textiles,<br>-uniforms- mass furnishings etc | Y / N |
| d) | New retail presence with direct-to-customer-chains                       | Y / N |
| e) | Short term production cycles- 2 weeks                                    | Y / N |
| f) | Establishing overseas distribution                                       | Y / N |
| g) | Establishing national retail (own brand) presence                        | Y / N |
| h) | Manufacturing for established national brands                            | Y / N |

Any others -----

**9. Has the firm transferred certain other functions to other players in the chain for specific reasons?**

- |    |   |       |
|----|---|-------|
| a) | High quality printing   | Y / N |
| b) | Specific treatments for outdoors, fire, durability  | Y / N |
| c) | Stitching, embroidery, other labour intensives  | Y / N |
| d) | Transfer of some functions (low value) -to out-of-<br>cluster- SC members                                 | Y / N |
| e) | Transfer of some high value functions to specialized<br>firms –(within cluster/within state/out of state) | Y / N |
| f) | Transport, logistics and shipping to specialized firms  | Y / N |
| g) | Designers in buyer markets  | Y / N |
| h) | Sellers agents in buyers markets  | Y / N |
| i) | Lobbying, market entry strategies in foreign markets  | Y / N |

j) Any others? -----

**10. Tick the importance of the home furnishing categories (relevant to your company) to your annual revenues: (1- unimportant, 5- very important)**

- |    |  |                          |
|----|--|--------------------------|
| a) | Furnishing fabric(rolls)   | 1+====+====+====+====+5  |
| b) | Furnishing fabric (for design books)   | 1+====+====+====+====+5  |
| c) | Bedlinen   | 1+====+====+====+====+5  |
| d) | Bathroom linen   | 1+====+====+====+====+5  |
| e) | Kitchen linen  | 1+====+====+====+====+5  |
| f) | Table linen  | 1+====+====+====+====+5  |
| g) | Accessories coordinated by colour<br>and/or design   | 1+====+====+====+====+5  |
| h) | Lifestyle goods/ single season additions   | 1+====+====+====+====+5  |
| i) | Blinds/Quilts  | 1+====+====+====+====+5  |
| j) | Rugs/Floor coverings in cotton base  | 1+====+====+====+====+5  |
| k) | Wool/other fabric based coverings  | 1+====+====+====+====+5  |
| l) | Clothing coordinated to purpose<br>(night wear, beachwear, play clothing<br>or party wear) | 1+====+====+====+====+ 5 |

11. **On an average which sources contribute the most to each category that are produced by you?** (May tick multiple sources if applicable.)

Own unit                      power looms                      cooperatives                      individuals                      Karur /Tirupur

- a) Bedlinen
- b) Bath linen
- c) Kitchen linen
- d) Table linen
- e) Colour and/or design
- f) Coordinated Accessories
- g) Blinds/Quilts
- h) Rugs/Floor coverings
  - in cotton base
  - in Wool/other fabric

12. **Which are the specific buyer segments that have been most significant to the company revenues over the period 2004-08?** (Rank in order of importance I to V)

- a) Retail chains –value offering – large volume
- b) Low margins- fair quality
- c) Retail chains-better quality, prices, lesser volume
- d) Individual retailers- higher value, less volume, consistent
- e) Independent wholesalers- particular product categories
- f) Wholesale distributors/importers
- g) Catalogue/mail order companies
- h) Exclusive, individual boutiques
- i) Any others-----

13. **What are the methods by which companies establish specifications to be followed by suppliers?**  
(Tick what is applicable)

- a) Quality standards ISO 9000
- b) Quality standards environmental compliance
- c) Water treatment equipment and set up
- d) Labour standards- social accountability
- e) Other labour oriented equivalent standards
- f) Company specific product development standards
- g) Specific Process standards
- h) Region or country standards
- i) Industrial consortium standards
- j) NGO or watchdog organization standards
- k) Suppliers own product/process standards sufficient



14. **How do companies ensure that the standards they insist upon are followed?** (Tick what is applicable)
- a) On site inspections by buyers/representatives.
  - b) Third party inspections
  - c) Certified agencies appointed by buyer.
  - d) Certifications issued by government bodies.
  - e) Inspections by relevant government bodies.
  - f) Periodic –annual/half yearly inspections.
  - g) Reliance on watchdog reports.
  - h) Communication to other chain members.
  - i) Any other methods -----
15. **What are the State Government based rules and conditions that companies are expected to follow?**
- a) Building and construction rules
  - b) Environment management rules
  - c) Water treatment and waste water management
  - d) PPF Fund maintenance
  - e) Minimum wages/ other allowances
  - f) Panchayat centred rules
  - g) Political funding
  - h) Any others -----
16. **Over the period from 2004-2008 which countries have been the key contributors to your revenues** (Rank in order of importance I to V)
- a) USA
  - b) EU based countries
  - c) Canada
  - d) South East Asian countries
  - e) African countries
  - f) Any significant others -----
17. **What do you feel are the key differentiators of your company?** Tick what is applicable where : (1- unimportant, 5- very important)
- a) Lineage (firm's values, customer focus) 1+====+====+====+====+5
  - b) Handloomed origin 1+====+====+====+====+5
  - c) Design strengths & sample development 1+====+====+====+====+5
  - d) Dyeing and weaving Strength 1+====+====+====+====+5
  - e) Management of work flows 1+====+====+====+====+5
  - f) Timely Deliverability 1+====+====+====+====+5
  - g) Consistent quality standards 1+====+====+====+====+5
  - h) Price competitiveness (low prices) 1+====+====+====+====+5
  - i) Large scales (Volumes) 1+====+====+====+====+5
  - j) Trust/strength of relation with buyer 1+====+====+====+====+5
  - k) Consistent orders 1+====+====+====+====+5
  - l) Size of Infrastructure and Sourcing expertise 1+====+====+====+====+5

18. In terms of activities undertaken at your levels which of the following activities are **routinely undertaken at your level**? Tick applicable and rate importance (1- unimportant, 5- very important)

a)	Design development for buyer	1+=====+=====+=====+=====+5
b)	Sample/Product suggestion	1+=====+=====+=====+=====+5
c)	Sample development as per Request	1+=====+=====+=====+=====+5
d)	Colour /design book development For order generation	1+=====+=====+=====+=====+5
e)	Designer generated sampling	1+=====+=====+=====+=====+5
f)	Logistics and transport to Final retailer	1+=====+=====+=====+=====+5
g)	Retail packing and labeling	1+=====+=====+=====+=====+5
h)	Inventory management for buyer at supplier premises	1+=====+=====+=====+=====+5
i)	Forecasting and production based on buyer sales figures	1+=====+=====+=====+=====+5
j)	Tailored sourcing/short runs	1+=====+=====+=====+=====+5
k)	Less than 30 days delivery	1+=====+=====+=====+=====+5

19. On an average, for your key buyers what is the nature of your association with respect to:

a)	Length of relationship	short	1+=====+=====+=====+=====+5	long
b)	Ordering procedure	formal	1+=====+=====+=====+=====+5	informal
c)	Contractual relationship	formal	1+=====+=====+=====+=====+5	informal
d)	Inspection	formal	1+=====+=====+=====+=====+5	informal
e)	Degree of dependence	low	1+=====+=====+=====+=====+5	high
f)	Technical assistance	low	1+=====+=====+=====+=====+5	high
g)	Communication	one level	11+=====+=====+=====+=====+5	multilevel
h)	Price determination	formal	1+=====+=====+=====+=====+5	informal
i)	Credit extended	short	1+=====+=====+=====+=====+5	long
j)	Outsourcing payment terms	inflexible	1+=====+=====+=====+=====+5	flexible

20. Which set of attributes best describes the nature of the value chain relationship with your most valuable customer group? (valuable in revenue terms)

Many customers/ many suppliers  
Customers may change suppliers rapidly  
Length of relationship short  
Repeat transactions carried out but information flows are limited  
No technical assistance from buyer

Supplier has various customers  
If suppliers has few customers then customers has few suppliers  
Intense information flow in both directions  
Both sides have difficult to substitute capabilities  
Commitment to solve problems through negotiation

Main customer takes 50% of output.  
Customer defines the product, design and technical specification.  
Monitor supplier performance  
Customer provides technical assistance.  
Supplier's exit options more limited

Vertical integration of several stages  
Very limited autonomy to take decision at the local level


**Annexure -II**

**RATING SCALE EXAMINING THE OPINION OF SUPPLIER FIRMS  
REGARDING THE RELATIVE IMPORTANCE OF CRITICAL SUCCESS  
FACTORS IN THE HOME TEXTILE INDUSTRY**

Dear Sir/Madam

I am Anoo Anna Anthony, a doctoral research student of the Cochin University of Science and Technology, in the department of management studies, Kerala, India doing research on the topic '*Global Value Chain Linkages of Manufacturing export firms: A study of the Kannur Home textile Industry*'. As part of the study, it is necessary to assess the relative importance of the following critical success factors in the home furnishing industry. I would be immensely grateful if you could rate the relative importance of the following critical success factors *to your buyers*. Please rate using the 7 point scale where 1- not important and 7= critically important.

	1 Not important	2	3 Fairly important	4	5 Very Important	6	7 Critically important
New designs and innovative products every season							
Better communication and query handling for orders							
Continuous improvement in product quality							
Redressal of customer complaints– speed and method of handling them							
Reasonable prices							
Finishing and packing							
Ability to shorten lead times							
All in one factory premises							
Flexibility and responsiveness to buyer demand							
Faster delivery							
Handloomed origin of product							
Compliance with SA or socially relevant standards							
Reliable delivery							

**RATING SCALE EXAMINING THE OPINION OF SUPPLIER FIRMS  
REGARDING THEIR PERFORMANCE WITH REGARD TO CRITICAL  
SUCCESS FACTORS IN THE HOME TEXTILE INDUSTRY**

Dear Sir/Madam

I am Anoo Anna Anthony, a doctoral research student of the Cochin University of Science and Technology, in the department of management studies, Kerala, India doing research on the topic '*Global Value Chain Linkages of Manufacturing export firms: A study of the Kannur Home textile Industry*'. Please rate your performance on these critical success factors in the home furnishing industry. Please rate using the 7 point scale where 1- not important and 7= critically important.

	1 Not important	2	3 Fairly important	4	5 Very Important	6	7 Critically important
New designs and innovative products every season							
Better communication and query handling for orders							
Continuous improvement in product quality							
Redressal of customer complaints– speed and method of handling them							
Reasonable prices							
Finishing and packing							
Ability to shorten lead times							
All in one factory premises							
Flexibility and responsiveness to buyer demand							
Faster delivery							
Handloomed origin of product							
Compliance with SA or socially relevant standards							
Reliable delivery							


**Annexure -IV**

### ASSESSING THE VIEW OF KEY BUYERS REGARDING SUPPLIER CAPABILITIES

Dear Sir/Madam

I am Anoo Anna Anthony, a doctoral research student of the Cochin University of Science and Technology, in the department of management studies, Kerala, India doing research on the topic '*Global Value Chain Linkages of Manufacturing export firms: A study of the Kannur Home textile Industry.*'. As part of the study, the perspective of the buyer is necessary to make the study meaningful. I would be immensely grateful if you could rate the relative importance of the following critical success factors to the success of your business in the home furnishing industry. Please rate using the 7 point scale where 1- not important and 7= critically important.

	1 Not important	2	3 Fairly important	4	5 Very Important	6	7 Critically important
New designs and innovative products every season							
Better communication and query handling for orders							
Continuous improvement in product quality							
Redressal of customer complaints–speed and method of handling them							
Reasonable prices							
Finishing and packing							
Ability to shorten lead times							
All in one factory premises							
Flexibility and responsiveness to buyer demand							
Faster delivery							
Handloomed origin of product							
Compliance with SA or socially relevant standards							
Reliable delivery							


**Annexure - V**
**LIST OF CASE STUDY INTERVIEWS WITH DATE, TIME AND CODE**

	<b>CASE STUDY 'H' (FIRM H)</b>	<b>DATE</b>	<b>TIME</b>	<b>CODE</b>
1	MR.JAYAKUMAR.K.P., MANAGING PARTNER,	24/12/08	3 HOURS	INTCS H-1
2	MANOO JAYAKUMAR, BUSINESS DEVELOPMENT MANAGER,	4/5/2009	3 HOURS	INTCS H-2
3	MANOO JAYAKUMAR, BUSINESS DEVELOPMENT MANAGER,	7/5/2009	2 HOURS	INTCS H-3
4	MANOO JAYAKUMAR, BUSINESS DEVELOPMENT MGR	9/5/2009	3 HOURS	INTCS H-4
5	MR.JAYAKUMAR.K.P, MANAGING PARTNER,	19/05/09	2 HOURS	INTCS H-5
6	MRS.SREELEKHA ,EXPORT MANAGER	19/05/09	2 HOURS	INTCS H-6
7	MANOO JAYAKUMAR	25/05/09	3 HOURS	INTCS H-7
8	MANOO JAYAKUMAR	4/7/2009	2 HOURS	INTCS H-8
9	MANOO JAYAKUMAR	8/2/2010	3 HOURS	INTCS H-9
10	MR.S.VARMA, QUALITY OFFICER	10/2/2010	2 HOURS	INTCS H-10
11	MANOO JAYAKUMAR	10/2/2010	1 HOUR	INTCS H-11
12	MR. JAYAKUMAR.K.P	24/02/10	2 HOURS	INTCS H-12

	<b>CASE STUDY 'M' (FIRM M)</b>	<b>DATE</b>	<b>TIME</b>	<b>CODE</b>
1	MR.JAYACHANDRAN..C., MANAGING PARTNER	24/05/08	2 HOURS	INTCS M-1
2	MR.JAYACHANDRAN. C., MANAGING PARTNER	23/12/08	3 HOURS	INTCS M-2
3	MR.JAYACHANDRAN..C., MANAGING PARTNER	11/5/2009	2 HOURS	INTCS M-3
4	MR.JAYACHANDRAN .C, MANAGING PARTNER	19/05/09	3 HOURS	INTCS M-4
5	MR.JAYACHANDRAN..C., MANAGING PARTNER	20/05/09	2 HOURS	INTCS M-5
6	MR.JAYACHANDRAN. C., MANAGING PARTNER	21/05/09	2 HOURS	INTCS M-6
7	MS. ROOPA, PERSONAL SECRETARY	26/05/09	1 HOUR	INTCS M-7
8	MR.JAYACHANDRAN C., MANAGING PARTNER	26/05/09	2 HOURS	INTCS M-8
9	MR.JAYACHANDRAN.C., MANAGING PARTNER	27/05/09	3 HOURS	INTCS M-9
10	MR.JAYACHANDRAN..C, MANAGING PARTNER	26/02/10	2 HOURS	INTCS M-10
11	OFFICE SECRETARY-	21/05/09	1 HOUR	INTCS M-11
12	TECHNICAL STAFF- SUPERVISOR	21/05/09	1 HOUR	INTCS M-12

	<b>CASE STUDY 'S' (FIRM S)</b>	<b>DATE</b>	<b>TIME</b>	<b>CODE</b>
1	MR.SABARI DAS. C.V, CEO	23/04/09	2 HOURS	INTCS S-1
2	MR.NAVANEETHAN.A, GENERAL MANAGER	23/04/09	2 HOURS	INTCS S-2
3	MR.NAVANEETHAN.A, GENERAL MANAGER	28/04/09	3 HOURS	INTCS S-3
4	MR SABARI DAS.C.V, CEO	7/5/2009	2 HOURS	INTCS S-4
5	MR. NAVANEETHAN. A, GENERAL MANAGER	9/5/2009	5 HOURS	INTCS S-5
6	MR. NAVANEETHAN. A, GENERAL MANAGER	27/05/09	3 HOURS	INTCS S-6
7	MR. SABARIDAS.C.V, CEO	3/7/2009	2 HOURS	INTCS S-7
8	MR. NAVANEETHAN. A, GENERAL MANAGER	3/7/2009	1 HOUR	INTCS S-8
9	MR. NAVANEETHAN. A, GENERAL MANAGER	26/09/09	3 HOURS	INTCS S-9
10	MR. NAVANEETHAN. A, GENERAL MANAGER	9/2/2010	2 HOURS	INTCS S-10

Note: **The interviews codes have been abbreviated as M1, M2, H1,H2 or S1 S2 etc. in the individual and cross case analysis for convenience**

	<b>OBSERVATIONS</b>	<b>DATE</b>	<b>CODE</b>
1	OBSERVATION OF COMPANY SHOWROOM OF FIRM H COMPANY PREMISES BY EXPORT MANAGER	24/12/08	OBSV-1
3	OBSERVATION OF RENOVATED COMPANY SHOWROOM OF FIRM H	13/2/09	OBSV-2
4	OBSERVATION OF COMPANY SHOWROOM OF FIRM S	24/02/10	OBSV-3



**LIST OF GENERAL INTERVIEWS WITH DATE AND CODE**

	<b>GENERAL INTERVIEWS</b>	<b>DATE</b>	<b>CODE</b>
1	MR.P. BHASKARAN, MANAGER, HANTEX, CALICUT	20/05/08	INT G-1
2	MR. P. SHANMUGHAM,DEPUTY MANAGER, NHDC, ONDANE ROAD,KANNUR	21/05/08	INT G-2
3	MR.TAPAN PANDA, OFFICER ,WEAVERS SERVICE CENTER,SOUTH BAZAR, KANNUR	21/05/08	INT G-3
4	MR.K. MOHANACHANDRAN,QUALITY ASSURANCE OFFICER, TEXTILES COMMITTEE, FORT ROAD, KANNUR	21/05/08	INT G-4
5	MR. K. RAVEENDRAN, MANAGER, COMTRUST (THE COMMONWEALTH TRUST, MANANCHIRA,CALICUT	22/05/08	INT G-5
6	MR. CHANDRAN, CLUSTER DEVELOPMENT AGENT, DIC, CALICUT	10/9/2008	INT G-6
7	MRS. RAMAKRISHNAN (Cannanore Handlooms, Kannur) AT MEETING OF PADMASALIYA COMMUNITY , NEHRU AUDITORIUM KANNUR	26/04/09	INT G-7
8	MR.K. MOHANACHANDRAN,QUALITY ASSURANCE OFFICER, TEXTILES COMMITTEE, FORT ROAD, KANNUR		
9	MR. RAJASHEKHARAN. D, FACULTY, NIFT,KANNUR	9/2/2010	INT G-8

**LIST OF FOCUSED INTERVIEWS WITH DATE AND CODE**

	<b>FOCUSED INTERVIEWS</b>	<b>DATE</b>	<b>CODE</b>
1	SHRI.V.C.PANICKER., WEAVERS SERVICE CENTER,SOUTH BAZAR, KANNUR	21/05/08	INT F-1
2	SHRI. SREEDHARAN.K, CHIEF EXECUTIVE, IKON (IRINAV CONSORTIUM) IKON SHOWROOM, KANNUR	24/05/08	INT F-2
3	SHRI. SUJITH R, HANDLOOM DIVISION, DIC, KANNUR COLLECTORATE	26/05/08	INT F-3
4	MR.CHANDRAN.K. OF IHTT, THOTTADA, KANNUR	28/05/08	INT F-4
5	MR. RAJAN.T , SWARAJ EXPORTS, CALICUT	8/9/2008	INT F-5
6	MR. C. RAMAKRISHNAN, PARTNER, CANNANORE	24/04/09	INT F-6
7	MR. V.C. PANICKER, WEAVERS SERVICE CENTRE SOUTH BAZAR, KANNUR	29/04/09	INT F-7
8	MR. CHANDRAN.K, IHTT, THOTTADA, KANNUR	7/5/2009	INT F-8
9	MR.BALAN.P, MANAGER, KTEO DESIGN STUDIO, KANNUR	9/2/2010	INT F-9
10	SHRI DINESH, DINESH TEXTILES (POWERLOOM),MATTANOOR		
	KANNUR	10/2/2010	INT F-10
11	MR.MOHAN KELATH, MANAGER, WEAVE AND WEAVE, CHIRAKKAL,KANNUR	27/02/10	INT F-11
12	MR. RAJAN, RAJA HANDLOOMS (POWERLOOM), KOOTHUPARAMBA, KANNUR	27/02/10	INT F-12

**LIST OF INTERVIEWS WITH SECOND TIER MANUFACTURERS  
WITH DATE AND CODE**

	<b>SECOND TIER MANUFACTURERS</b>	<b>DATE</b>	<b>CODE</b>
1	FOCUS GROUP DISCUSSION AMONG COOPERATIVE MANUFACTURERS AT MARKETING ORIENTATION PROGRAM HELD AT KIED, KALAMASSERY	22/02/09	
2	ONE DAY SEMINAR ON PADMASALIYA HANDLOOM WEAVER COMMUNITY ISSUES HELD AT JAWAHARLAL NEHRU HALL, PUBLIC LIBRARY, KANNUR	26/04/09	
3	INTERVIEW WITH SECRETARY, MORAZHA WEAVERS COOPERATIVE SOCIETY KANNUR	13/02/10	INTST-1
4	INTERVIEW WITH SECRETARY, KOLATHUVEYIL WEAVERS SOCIETY, KANNUR	14/02/10	INTST-2
5	INTERVIEW WITH SECRETARY, KALLIASSERY WEAVER'S SOCIETY, KANNUR	14/02/10	INTST-3
6	INTERVIEW WITH SECRETARY PAPPINASSERY WEAVERS SOCIETY, KANNUR	14/02/10	INTST-4
7	DISCUSSION WITH MR. SREEDHARAN , SECRETARY, IRINAV CONSORTIUM	23/02/10	INTST-5
8	DISCUSSION WITH SECRETARY , CHIRAKKAL WEAVER'S SOCIETY, KANNUR	23/02/10	INTST-6
9	INTERVIEW WITH SECRETARY, IRINAV WEAVER'S SOCIETY, KANNUR	25/02/10	INTST-7
10	INTERVIEW WITH SECRETARY, PINARAYI WEAVER'S SOCIETY, KANNUR	26/02/10	INTST-8
11	INTERVIEW WITH SECRETARY, SANKARANELLUR COOPERATIVE SOCIETY, KANNUR	27/02/10	INTST-9

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