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 in 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 researches. 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 is 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, dobbey 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

<table>
<thead>
<tr>
<th>Categories of buyers</th>
<th>Department store chains (not mass market)</th>
<th>Importer wholesalers and distributors</th>
<th>Catalogue companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20%</td>
<td>10%</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>12%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Accounts for 30% of final product cost</td>
<td>Accounts for 20% of final product</td>
<td>Accounts for 30% of final product</td>
</tr>
</tbody>
</table>

| 1. Retail packing/master cartons/ loading | 5%   | 7%   | 10% |
| a. Steam Pressing, folding              |      |      |     |
| b. Quality inspection                   |      |      |     |
| c. Fixing of product labels            |      |      |     |
| d. Embroidery, finishing works, appliqué, stitching |      |      |     |
| e. Accessorizing, stitching and finishing |      |      |     |
| f. Trucking to warehouse                |      |      |     |
| g. Destination port costs               |      |      |     |
| h. Retailer/final buyer margins         |      |      |     |
| i. Designer margin                      |      |      |     |
| j. Distributors margin                  |      |      |     |
| k. Shipping and forwarding agents       |      |      |     |

| 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 | Yarn | Chemicals | Dyes | Accessories | Packing materials (Common sourcing for all three buyer segments) |
|          |      |          |      |           | Yarns, dyes and chemicals from Kannur based stockists or NHDC for common yarn counts on receipt of order, and not stocked as inventory 20% of final product cost |
|          |      |          |      |           | Accessories suppliers based in Tirupur, 5% of final cost, Packaging materials, and plastics based in textile production centers out of state 5% of final cost |
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
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

Technology for testing of products was discussed by the respondent. Inhouse 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:


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 handloom 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 disbursal 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 Heimtexil- 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 fond 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 lead 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. Theses 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 form 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 it 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.

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 upgradation 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 handloom fabric by buyers meant that exporters began to prefer less expensive production sources.

c) This was taken 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 tradesmen 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 weaned, 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 emphasise 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 Tiruverpathy 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 upgradation 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 link 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 liaisoning at central government level.
Chapter-6

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>
<thead>
<tr>
<th>Categories of buyers</th>
<th>Department store chains (not mass market)</th>
<th>Importer wholesalers and distributors</th>
<th>Branded importers</th>
</tr>
</thead>
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<tr>
<td>Retailer/final buyer margins</td>
<td>20%</td>
<td>15%</td>
<td>17%</td>
</tr>
<tr>
<td>Designer margin</td>
<td>12%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Distributors margin</td>
<td></td>
<td></td>
<td></td>
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<td>Trucking to warehouse</td>
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<td></td>
<td></td>
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<tr>
<td>Destination port costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shipping and forwarding agents</td>
<td>5%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>1. Retail packing/ master cartons/loading</td>
<td>20% of product cost</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>e. Steam Pressing, folding</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
</tr>
<tr>
<td>Quality inspection</td>
<td>Within kannur facility</td>
<td>Within Kannur facility</td>
<td></td>
</tr>
<tr>
<td>d. Fixing of product labels</td>
<td>Within Kannur facility</td>
<td>Within Kannur facility</td>
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<tr>
<td>quality inspection</td>
<td>Within Kannur facility</td>
<td>Within Kannur facility</td>
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<tr>
<td>c. embroidery, finishing works, appliqué, stitching</td>
<td>Within Kannur facility</td>
<td>Within Kannur facility</td>
<td></td>
</tr>
<tr>
<td>b. accessorizing, stitching and finishing</td>
<td>Within Kannur facility</td>
<td>Within Kannur facility</td>
<td></td>
</tr>
<tr>
<td>a. Fabric cutting according to design</td>
<td>Within Kannur facility</td>
<td>Within Kannur facility</td>
<td></td>
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<tr>
<td>8. Made ups manufacture</td>
<td>Within Kannur facility</td>
<td>Within Kannur facility</td>
<td></td>
</tr>
<tr>
<td>7. For furnishing fabric -steam pressing, rolling, vacuum packing</td>
<td>Within factory</td>
<td>Within Factory</td>
<td></td>
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<td>6. Return and inspection</td>
<td>Within Factory</td>
<td>Within Factory</td>
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<td>5. Treatments — lamination, calendaring, stendering, flame resistance, water-proofing out of state</td>
<td>Within Factory</td>
<td>Within Factory</td>
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<td>4. Inspection of fabric after production</td>
<td>Within Factory</td>
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<tr>
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<td>Individual weavers in factory surroundings 20%</td>
<td>Power looms in Tamil Nadu 40%</td>
<td>Cooperatives in Kannur 40%</td>
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<tr>
<td>2. Production within company</td>
<td>Sample development</td>
<td>Finishing of made ups</td>
<td></td>
</tr>
</tbody>
</table>
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 ad 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—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 it. 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 firm's 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 the 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 gods 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.
Analysis of Strand I: Case Study Research

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.

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 had 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.
Memo 2: 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 form 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 3rd 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
Analysis of Strand I: Case Study Research

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 gents are used as they are too small scale to execute testing g 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 by 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 by 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 and 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.

**Memo 1:** 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.

**Memo 2:** 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.

a) Insurance for freight 5%  
b) Transport or shipping 6-8% added on received price  
c) Buyer’s docking charge 10-55% on goods is received  
d) Forwarding costs of buyer 10% is again added  
e) 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 exporter’s 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 showcased 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.
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.

Memo 1: 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.

Memo 1: 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.

**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 Texstyles 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.

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<th>Transport charge, import duty, clearing port to warehouse,</th>
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<td>Unloading and packing</td>
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<td>Interior designer or design cost</td>
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<tr>
<td>Distributors margin</td>
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<td>Final product cost</td>
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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.
Memo 1: 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 this designs were used for the development of the design manuals or fabric swatch booklets, was 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 followed.

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 do 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.

Memo 1: 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 wan 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.

**Memo**: 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 levels. 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

<table>
<thead>
<tr>
<th>categories of buyers</th>
<th>Department store chains (not mass market)</th>
<th>Importer wholesalers and distributors</th>
<th>Larger retailers with multiple supply hubs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer/final buyer margins</td>
<td>25%</td>
<td>15%</td>
<td>30%</td>
</tr>
<tr>
<td>Designer margin</td>
<td>12%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Distributors margin</td>
<td></td>
<td>Accounts for 30% of final product cost</td>
<td>Accounts for 20% of final product cost</td>
</tr>
<tr>
<td>Trucking to warehouse</td>
<td></td>
<td></td>
<td>Accounts for 30% of final product cost</td>
</tr>
<tr>
<td>Destination port costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shipping and forwarding agents</td>
<td>5%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>f. Retail packing/ master cartons/loading</td>
<td>20% of product cost</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>e. Steam Pressing, folding</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
</tr>
<tr>
<td>Quality inspection</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
</tr>
<tr>
<td>d. Fixing of product labels</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
</tr>
<tr>
<td>quality inspection</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
</tr>
<tr>
<td>c. embroidery, finishing works, appliqué, stitching</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
</tr>
<tr>
<td>b. accessorizing, stitching and finishing</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
</tr>
<tr>
<td>a. Fabric cutting according to design</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
<td>Within kannur facility</td>
</tr>
<tr>
<td>8. Made ups manufacture</td>
<td>within factory</td>
<td>Within factory</td>
<td>Within factory</td>
</tr>
<tr>
<td>7. For furnishing fabric - steam pressing, rolling, vacuum packing</td>
<td>Within factory</td>
<td>Within factory</td>
<td>Within factory</td>
</tr>
<tr>
<td>6. Return and inspection</td>
<td>Within factory</td>
<td>Within factory</td>
<td>Within factory</td>
</tr>
<tr>
<td>5. Treatments -lamination, calendaring, tendering, flame resistance, water-proofing out of state</td>
<td>Treatments of fabric done within kannur facility or out of state facilities</td>
<td>Treatments of fabric done within kannur facility or out of state facilities</td>
<td>Treatments of fabric done within kannur facility or out of state facilities</td>
</tr>
<tr>
<td>4. Inspection of fabric after production</td>
<td>Treatments of fabric done within kannur facility or out of state facilities</td>
<td>Treatments of fabric done within kannur facility or out of state facilities</td>
<td>Treatments of fabric done within kannur facility or out of state facilities</td>
</tr>
<tr>
<td>3. Production of fabric outside of company</td>
<td>Handloom cooperatives 10%</td>
<td>Own Power loom in Kannur 75%</td>
<td>Individual weavers in Kannur 10%</td>
</tr>
<tr>
<td>2. Production within company</td>
<td>Sample development</td>
<td>Powerloom production</td>
<td></td>
</tr>
</tbody>
</table>
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.
Chapter 6

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.

Memo 2: 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.

Memo 3: 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, Kallissery 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 Chirakkel, 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 disposable 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 EOUss. 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 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 that 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.
Memo 1: 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 that 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.
Chapter 6

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 increases 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.

**Memo 1:** 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 combines 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 or 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 is 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**

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.
Memo 2: 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 that 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

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 of 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.
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.

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.
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 wearing 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.
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 became 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 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 see. 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. The 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 wages, 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>
<thead>
<tr>
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<th>FIRM H</th>
<th>FIRM M</th>
<th>FIRM S</th>
<th>CROSS CASE INFERENCES</th>
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<tbody>
<tr>
<td><strong>FIRM H</strong></td>
<td>60% of customers insisted on handloom origin. 40% on value. (H2)</td>
<td>Recent modernization had not been done. Technology upgradation was not significant. This was in comparison to other T&amp;C clusters like Karur, Tirupur. (M3)</td>
<td>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.</td>
<td>Firm H did not emphasize technical strength in manufacturing primarily because key buyer’s USP was ‘handmade’ (<a href="http://www.malabar.net">www.malabar.net</a>).</td>
</tr>
<tr>
<td></td>
<td>ICT linkages strong with buyers. Product planning software enabled contact at all levels of staff. (H2)</td>
<td>Latest upgradation for firm was in 2000. Equipment taken up were 1. Needle detector machine      2. Cutting machines   3. Stitching machines. 4. Peroxide bleaching instead of region specific caustic soda bleach process. 5. Kier drying instead of air drying. Useful in monsoon</td>
<td>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.</td>
<td>Link goes back to 1984. Lack of technology was not a weakness as firm sold to buyers who sourced low volume, high variability, and high quality and finish. (H7)</td>
</tr>
<tr>
<td></td>
<td>Firm did away with in house weaving in 1990s- strong dependence on cooperative societies since then. (H4)</td>
<td></td>
<td></td>
<td>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).</td>
</tr>
<tr>
<td></td>
<td>Cabinet Dyeing machinery in place for uniform colour matching. Stitching units for made ups in 4 locations</td>
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<td></td>
<td>Firm had a cabinet dyeing machine to enable large batch</td>
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Table 6.4: Data Array of Firm Rents - Technology rents
dyeing and uniform dyes before yarn distributed for weaving.

Change in dyeing method meant loss of a resource based benefit, but savings on dyes, costs, water loss etc (H2)

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)

Firm M had few recent technical upgradation practices. Yet this was not counted as a reason for not getting buyers, or source of dissatisfaction among existing buyers. (M3)

Use of out of cluster value adding activities seen (M3)

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)

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...
4. Presently high product capacity not being sufficiently utilized.

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. (S10).

A way to do this was to engage in own branding, or to produce for established brands, in large volumes.

| Investment in such scale. (S10) quality, and acceptable price. 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) 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) |
6.5.1.2 Human Resources

Table 6.5: Data Array of Firm Rents – Human Resources

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<tr>
<th>FIRM H</th>
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<tr>
<td>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) 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) Relation between management and staff very good. Evaluated on yearly basis (SA 8000 standards requirement). Non hierarchical. Free and fair</td>
<td>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. An emotional linkage to workforce members and a social embeddedness with respect to firm staff was there. (M4) 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) Despite lack of professionally educated management staff, their</td>
<td>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. (S5) The orders of the important buyers (in terms of volume or value) are handled by a group of</td>
<td>The human resources is a source of rent for all firms because they demonstrate: a. Strong adherence to quality standards that firms followed, whether ISO 9000 or SA 8000 or any other buyer specified standards. b. Strong experience of working with specific and variable product related instructions regarding the yarn counts, weaves and design differences. c. Were used to rapid changes in order design, colour and size. d. 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</td>
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</table>
working environment. Egalitarian and supportive-cross checked with workers. Fair work schedules, higher work satisfaction, work related tensions less. Philanthropy of owner mentioned. (H2)

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 dying 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.

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)

20 staff members were associated with sample development. The key personnel abilities mentioned were

a. reliability
b. quick response
c. 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)

Hands down approach to product development. 20 staff members associated with sample development for fairs. According to time of fairs 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.

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.

A source of weakening bargaining power was

a. Migration of highly qualified staff to other jobs particularly ‘gulf’ Jobs.
b. High turnover of female work force.
c. Absence of a systematic resource development or improvement policy.
d. Among older firms redundant weaver workforce.

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)

Firm prided itself on execution and responsiveness to buyers. This may have been because of lack of rigid hierarchy or non emphasis on
**Analysis of Strand I: Case Study Research**

The merchandisers and tailors who are in-house employees with excellent work ethic and long standing staff are again key in handling the queries.

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 (K2) 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 requirements, 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 or requests from buyers was very narrow. This implementation was very fast. This required a 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)
6.5.1.3 Organisation of Work

Table 6.6: Data Array of Firm Rents – Organisation of Work

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<th>FIRM H</th>
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<th>FIRM S</th>
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<tbody>
<tr>
<td>Organization of work 1. Order for bag/cushion/roll obtained by fax or email 2. Export manager and merchandisers plan production plan. 3. Purchase order (PO) is made with accessories supplier depending on packing instruction. 4. PO made with secondary suppliers regarding delivery date and rates. Negotiates with them. 5. Merchandiser in charge of the particular buyer monitors weaving and works with Quality Control staff, accessory purchase is</td>
<td>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. 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. 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</td>
<td>Organization of work was like this: 1. 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 2. Yarn purchase planned. (2 days) 3. Accessory purchase planned for things like foam, zippers, thread, buttons, polyester fiber, PE cover and scheduling of receipt of the same. (S3)</td>
<td>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: 1. Product innovation 2. Meeting buyers’ product specifications 3. Reducing new product turnover time 4. Customization of products every season. 5. Maintaining confidentiality 6. Providing the staff and knowledge base to cater to the highly variable sample development process. 7. Providing middle level employees with the knowledge of quality and processes to deal with buyer queries</td>
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</table>
done to suit arrival of finished fabric at factory. Suppliers chosen for fabric production.

6. Export manager prepares work order for made ups-scheduling operations

7. Shipping agent nominated and shipping planned (H3)

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)

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
dyes and chemicals.

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.

4. Once product accepted after weaving, inspection was carried out and the products sent for out of state treatments if required.

5. Products were sent by milk run to supplier points for treatments.

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.

5. Final inspection was done before dispatch. (record source of knowledge)

4. Yarn dyeing department. A dyeing plan developed before being sent to dye house, or to secondary producers. (15-20 days)

5. Fabric weaving options firm had were:

a.) Company’s own rapier loom, for higher volume.

b) Mat weaving if required, by mat weaving subcontractors.

c) Job works to individual power looms (micro enterprises) in cluster.

d) handloom cooperatives linked to firms production for decades (Kalliassery, Sankaranelloor, Kolathuvayil, Irinavu) (S3) (Weaving 15 days)

6. Once weaving over, collected and quality checked.

7. Specific processing or in their own right.

8. Knowledge and adhesion to universally accepted process standards, specific product standards and implementing best practices.

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.

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
priority for most buyers

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)

Firm rents in terms of production management, quality related and product range made it able to cater to wide range of customers.(H4)

Key strengths were;
1. High quality finishing
2. Sourcing of high quality accessories according to

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.

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 treatments carried out like preshrunk processing, fire retardancy, silicon finish, plastic lamination etc done in Coimbatore and Erode.

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.
30-35 days required to complete an order.

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 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.

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. 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.

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).

The firm also had a strong weaver’s union and older workers who had been
3. Buyer requirements.

Designs of buyer, produced to perfection.

Ability to customize product depending on buyer need.

Many suppliers of raw materials and pooling production to yield results.

Sourcing strengths linking many suppliers of raw materials, and satisfying different buyer classes or segments.

Meeting quality standards and satisfying different buyers and segments.

4. Sourcing strengths linking many suppliers of raw materials and pooling production to yield results.

5. Ability to customize product depending on buyer need.

6. Diverse manufactured products range. Ability to customize product depending on buyer need.

7. High percentage of fixed capacity created by acquiring the handloom factory and utilizing the handloom cost became unacceptable to buyers.

High percentage of fixed capacity created by acquiring the handloom factory and utilizing the handloom cost became unacceptable to buyers.

From 1994-2000 it was seen that there was a huge gap in the capacity created by acquiring the handloom factory and utilizing the handloom cost.

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)

3. Construction of potential products is worked out. Costing is also done. Product variations are quickly made. For the sampling, weaving and finishing is carried out in the factory premise, using handlooms for the same. Dyeing facility for small samples also maintained.

(S4)(S5)

Faced 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.

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 utilizing the handloom cost.

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)
### 6.5.1.4 Marketing

#### Table 6.7: Data Array of Firm Rents – Marketing

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<tbody>
<tr>
<td>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. 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. Further orders were obtained by the company also through referrals. (H6). Existing buyers referred supplier to other companies recommending their quality and performance.</td>
<td>Firm had employed the services of a freelance designer to create the artwork or prepare sample designs based on the market trends. (M2) 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. The completed designs were</td>
<td>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. 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</td>
<td>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. 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. 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; Knorringa,</td>
</tr>
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Schmitz & Knorringa,
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)

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. They consisted of a set of lifestyle products serving different needs but sold together as a single SKU
3. It added value to their offering.
4. Fair visits were crucial to marketing of firm offerings.

Out of a turnover of twenty crore rupees about two crore rupees was directed towards sample development, logistics, fair travel and attendance. (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. Expressions a strong need to diversify into new home category products and increase variety as this was a core need in the area. (S1)

A similar phenomenon was seen in the tightly controlled garment chains from Mauritius to the US market, that the activities centered around translating buyer’s specifications into practical knowledge to enable workers to produce new products by following up on product orders. (Gibbon, 2000a, p. 1895) Bair and Gereffi (2001, p. 1895) demonstrate in their study of the Mexican cluster of Torreon, producing blue jeans for the US market, that the activities centered around translating buyer’s specifications into practical knowledge to enable workers to produce new products by following up on product orders. (Gibbon, 2000a, p. 1895) The phenomenon of triangle manufacturing is seen in their case. (Humphrey & 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 own branding, design and marketing was done almost two decades after their export initiation prompted by sagging sales and declining profit margins. (Humphrey & Schmitz, 2003) A similar phenomenon was seen in the tightly controlled garment chains from Mauritius to the U.S. via the Far East. (Gibbon, 2000a, p. 1895) The phenomenon of triangle manufacturing is seen in their case. (Humphrey & Schmitz, 2003)
year – targeting new regions.
28 lakhs spent per fair. 70% on new sample developments for fair.

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)

assemble jeans. No manufacturer has produced own brands for sale in US or Mexican market.

Chiu and Wong (2002: 11) 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.
6.5.1.5. R&D Rents

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<thead>
<tr>
<th>FIRM H</th>
<th>FIRM M</th>
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<tbody>
<tr>
<td>New product development is done through</td>
<td>New product development constantly done. On a day to day basis 5-6 samples in various stages of production.</td>
<td>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) feasibility decided by both parties</td>
<td>Developing products for buyers centered around three aspects</td>
</tr>
<tr>
<td>A) Buyer’s own designers send designs. Samples developed here.50% of company’s buyers in this category.</td>
<td>Important source of rent as buyers emphasized new or innovative products. (M4), (M5) Firm’s product development requirement attached to fair participation. Sample development succeeded fair visits. Visiting international fairs and exhibiting products done at least twice a year. Most new product requirements came after fair visits and enquiries generated. (M4)</td>
<td>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) This was done through buyer visits scheduled twice an year to the factory. Discussions carried out within factory premise, in showroom of firm, decorated</td>
<td>a. Producing goods according to the specifications of buyers and in the required quality and finish.</td>
</tr>
<tr>
<td>B) 35-40% of buyers don’t doesn’t have product development as key strength. Specify guidelines and seasonal trends (mood boards). Design development at supplier premise.</td>
<td>Proprietor strongly exposed to yearly trends and seasonal changes through visits to fairs in different</td>
<td></td>
<td>b. Producing goods which may meet the standards of potential buyers when the firm exhibits products at fairs.</td>
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<tr>
<td>C) 10% depend on suppliers entirely for their designing and production needs.</td>
<td>Firm able to cater to all three customer needs.</td>
<td></td>
<td>c. Producing goods for buyers who have no product development infrastructure (designers, mood boards) and need new designs developed at supplier premise.</td>
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<td></td>
<td>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.</td>
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Keeps abreast with seasonal colours, textures and fiber changes through fair visits and country sojourns. Strong experimental emphasis of proprietor. (H4)

R&D in new products combined effort of company, buyer and second tier producers- a synergistic collaborative action, strongly governed by fashion and season.

Sample development is one of the highly specialized tasks in home textile production.

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 with firm’s products over years. (M4)

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.

Firm had the facility to develop samples as a priority.

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.

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.

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

Usually products were
a. An existing product reordered in a shade or colour change
b. 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)

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
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:

1. Consistent work
2. Earnings far better than earnings from domestic sale of handlooms.
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

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 production and final decision is taken. (S3)

Firm was trying to improve its offering of a complete solution by making the value adding processes as efficient as possible. (S4)

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.

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

1. good sample development with best staff and techniques

large retailers because these relationships are more symmetrical and give them the space for learning gradually in the context of small orders.

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.

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
year makes it something of a benchmark among cooperative establishments.

4. The reputation obtained by making fabrics of international standards, utilizing design strengths and weavers craft has an effect on the overall benefit 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 based fairs. Cost of stand, travel, sample development etc came to seven or eight lakhs 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 colours and seasonal changes.

2. the new sample options are presented well to buyers
3. good quality (continuously improving quality of end product
4. On time according to their requirement. (S4)

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).

The buyers need for special promotions every 3 months launched at new design fairs. New sample development and design innovation strongly emphasized. Highly competition 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.

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.

Firm S specified that provision of a facility that enabled quick response to designing requirements and sample development was important to buyers. Firms invest in developing this facility so
| attributes stressed by the company’s key buyers. | intensive and much shorter development periods demanded. It needed its own facility as reliance on local power loom and handloom was problematic. (S5) | that quick development is possible, a need that characterizes fashion oriented or seasonal products. 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 & 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. |
### 6.5.2 Data Array of Resource Based Rents

**Table 6.9: Data Array of Resource Based Rents**

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<th><strong>FIRM H</strong></th>
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<th><strong>CROSS CASE INFERENCES</strong></th>
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<tbody>
<tr>
<td>Quality of water-soft – Dye absorbency and brightness higher (H1)</td>
<td>The following factors were mentioned as central to the importance of the region in weaving:</td>
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<tr>
<td>Consciousness of quality high in region, conversion of difficult designs possible with highly skilled weavers (H1).</td>
<td>1. Richness of colours because of the soft water inherent in the region.</td>
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<tr>
<td>Kannur fabrics characterized by:</td>
<td>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.</td>
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<tr>
<td>a) Design intricacy and difficulty levels</td>
<td>3. The raw yarn went through more processing. The process of boiling yarn was a twelve hour process, which was not reduced</td>
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<td>b) Colours of deeper hues and very slight tone variations could be produced.</td>
<td>Kannur as a region manufacturing woven products had some specialties.</td>
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<td>c) Small batches of production in small quantities</td>
<td>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)</td>
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<td>d) Flexible or variable design-</td>
<td>Resource based strengths like bleaching, boiling of yarn and colour absorbency used to be a</td>
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<td>The importance of these attributes appear to be falling because of the following factors:</td>
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<td>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.</td>
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<td>2. the availability of soft water or abundant water sources becoming questionable</td>
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<td>3. The disposal of waste water becomes problematic</td>
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<td></td>
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<td>4. If dyeing can be done at cheaper cost</td>
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3. Analysis of Strand I: Case Study Research

**School of Management Studies, CUSAT**

Design requirement varies from batch to batch—colour variations also.

- People centric nature of operations
- Strong focus on non-tangible benefits like designing, development and execution, fabric meterage with high variation etc
- Repeated 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).

4. The sheer length of process and completion, stages were carried out caused an increase in the colour absorption and increased the colour’s depth and brightness. (M2)

4. Outside the cluster it is preferred to save time or money, in Kannur it was carried out through an 8 hour boiling process. This greatly increased absorbency of dyes and colour fastness. This used to be an important strength that was fast being lost (S2).

Nowadays dyeing was not done in factories because of the high investment called for water treatment and disposal, the legislative governance requirements called for installation of RO units which were prohibitively expensive (S2). Many firms did dyeing at specialized dye houses which undertook dyeing as job works.

Though these benefits were responsible for the quality of products initially, they were no longer a source of rent. More and more firms were doing dyeing outside of the cluster and weaving on handlooms was going down. 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.

In the event of dyeing done outside of cluster quality assurance is maintained. In the event of dyeing done outside of cluster it is preferred provided colour consistency is maintained. In the event of dyeing done outside of cluster quality assurance is maintained. In the event of dyeing done outside of cluster it is preferred provided colour consistency is maintained. In the event of dyeing done outside of cluster it is preferred provided colour consistency is maintained.
6.5.3 Data Array of Relational or Chain Rents

Table 6.10: Data Array of Relational or Chain Rents

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<th>FIRM H</th>
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<tbody>
<tr>
<td>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)</td>
<td>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. 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)</td>
<td>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)</td>
<td>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:</td>
</tr>
<tr>
<td>Key staff like QC, Merchandisers check work at 3 levels – before, during and after production at secondary producers (H2)</td>
<td></td>
<td></td>
<td>a. Relational or chain rents with firms down the chain, which are supplying firms or raw material providers.</td>
</tr>
<tr>
<td>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:</td>
<td>Strong ties with community and with firm personnel. The length of ties went back to time of the grandfather (founder) of the</td>
<td>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)</td>
<td>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.</td>
</tr>
</tbody>
</table>
1. Follow orders
2. To meet codified specifications of product construction.
3. To meet quality standards
4. To satisfy non tangible benefits like ETI (ethical trade initiative criteria or worker welfare measures, these being key selling criteria for buyer). (H2)

Relationship sustained by
a. Frequent visits to supplier sites.
b. Supplier involvement in idea generation.
c. Other supplier linkages introduced to buyer through the company in a non confrontational or supportive way. (H2)

Design development exclusive 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)

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)

Three types of buyers associated with company.
33% were top end stores with high quality consciousness. They focused on non tangible competencies of the buyer such as ideas being shared about new products, colours or season changes.

Buyer visits twice an year entailed
a. Ideas being shared about new products, colours or season changes
b. Whether designs workable, the price points and manufacturing costs
c. Additional costs.
d. Finalization of decision to develop e. Decision on how much lead time. Usually 2-3 weeks for first sample presentation. (S3)

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

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.
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.
e. Firms which are final buyers. These may be large importers, wholesalers or chain store buyers, or individual retailers.

Relational rents in the cluster are seen with secondary producers. The quasi governmental organizations have had an important role in the popularization of
and confidentially done. Firm satisfies needs of buyer. Long term relation ensures firm knows buyer needs

Relational rents down the chain (second tier producers) strong. Verticalization of production with cooperatives and individuals.

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)

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 as the ability to follow ethical trade initiatives and SA standards.

This segment has been supplied by company for over 20 years in some cases. From the time of first owner (father of present owner).

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)

Next 33% some buyers high quality conscious, and some are price oriented so firm had to balance these two concerns. It was able to do this by a balancing among different sources of production. These were local power loom, individual weavers and weaver

offs when yarn purchased from NHDC, government purchase of handloom orders (S5)

The relational rent reduced with cooperatives when

a. Firm established own power looms to meet the need of bulk or volume markets with fair or lower prices.

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.

c. Cooperative societies still being used because of the social linkages. This goes back through decades.

d. Price difference high between handloom and power loom

Quality difference-quality of handloom was going down because 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.

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.

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
limiting the firm. Continuous, weekly replenishment orders done at vertically integrated cooperative. (H3)

Second tier supplier linkage goes back 20 years. Four categories
a) Handloom cooperatives in Kannur
b) Power looms in Kannur having 2-5 looms
c) Individual handloom weavers not affiliated to cooperatives
d) Power looms at Karur - job works for large volume, cost controlled orders (H5)

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 cooperatives. (M4)

The various sources of production was carried out in the firm in the rations
In house handloom weaving:30%
Power looms based in Kannur - smaller firms having 5-7 looms- 50%
Cooperatives and individual weaver 27% (M4)
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
30% wages and 30% dyes and chemicals. (M10)

Exporters felt that power looms if they were not happy with the rates, need not take up of qualified weavers migrating to other trades. (S5)

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)

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)

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 dominating their operation.

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.

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.

Many present day exporters have their roots in such linkages. The first factories
ensured by checking with them, and their approval obtained before order given. (H6)

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.

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 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)

reordering was done. This meant that the firm had access to weekly demand figures to plan the next batch of products to be sent (S5)

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)

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)

This link would be used for setting up base in the EU and distribution to 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 generations and so the linkages with cooperative producers are community based and deeply ingrained.

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.

 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.
taking part in interviews. Trust based, non adversarial, advocacy based relation, with full confidence of lower linkages (H6)

Business with distributor wholesalers/ design houses profitable for firm. Relation based on delivery of good quality, consistently.

2. Firm ships stocks to particular stores in other countries in case of stock outs, within 20 days.
3. Enables product and process upgrading. New functions like inventory management and logistics planning taken up. (H4)

other countries.

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)

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.

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.

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.

The export firms also insisted on very stringent quality, and the failure to do so meant that the fabric was rejected or not
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.

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
6.5.4 Data Array of Exogenous Rents

6.5.4.1. Policy Rents

Table 6.11: Data Array of Exogenous Rents - Policy Rents

<table>
<thead>
<tr>
<th>FIRM H</th>
<th>FIRM M</th>
<th>FIRM S</th>
<th>CROSS CASE INFERENCES</th>
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</thead>
<tbody>
<tr>
<td>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)</td>
<td>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)</td>
<td>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)</td>
<td>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. 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. The Kannur handlooms received the GI (Geographical Indication) status in the latter...</td>
</tr>
<tr>
<td>Duty drawback scheme of the government at 4-8%. Packing credit and allowance and insurance</td>
<td></td>
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</table>

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) Export firms were not getting as much state government support as the cooperative sector was getting. The textile park was...
| through ECGC is utilized by the company. (M4) | 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) | 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. |
6.5.4.2 Infrastructure Rents

Table 6.12: Data Array of Exogenous Rents - Infrastructure Rents

<table>
<thead>
<tr>
<th>FIRM H</th>
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<tr>
<td>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. 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.</td>
<td>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) 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) 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)</td>
<td>Infrastructure was considered to be a disadvantage.</td>
<td>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. 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. 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</td>
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</table>
Some of the schemes directed towards this community were

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:
   a. Source of revenue for government if well maintained as a heritage tourism initiative.
   b. Enables the traditional craft to be well preserved and propagated. (M6)

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)

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 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.
form of a bazaar- with cooperative societies, handloom producers and private producers of handlooms sell products, all handloom in orientation (m6)

3. KRITIKA: aimed at individual weavers who were not organized into cooperatives but doing good production for exporters

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)
### Analysis of Sources of Governance

#### 6.6.1 Data Array of Legislative Governance Within And Between Firms

<table>
<thead>
<tr>
<th>FIRM H</th>
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<tr>
<td>Firm was SA 8000 certified by Italian certifying agency called RINA. It had significant weight age 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)</td>
<td>Firm was ISO9001:2000 Certified and certified by Der Norske Veritas (DNV) Netherlands during December 2001. It also has the approval of European Department Stores for the Eco labeling of its products. It contributed to increased trade and increased buyer confidence. This was for newer buyers. (M6)</td>
<td>Firm specific standards are conducted in house on finished fabric. They are a. washing test b. rubbing test c. colour matching (S3) The firm's quality department handled all in-house quality management as well as buyer specified testing requirements. (S3) 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.</td>
<td>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. Indicative of a regionalization of trade. Supplying firms would have to keep up with regional standards as trade becomes concentrated in these regions. (M6) 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</td>
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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) A regional standard was being followed called Business Social Compliance Initiative (BSCI). This was a standard set up by a group of

- 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. Indicative of a regionalization of trade. Supplying firms would have to keep up with regional standards as trade becomes concentrated in these regions. (M6) 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
Certified by buyers (visit to factory) or their representatives.(H1)

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)

Legislative governance measures that were firm specific were strictly followed especially for the premium segment buyers.

a. Inspection was carried out

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.

Top 220 European companies were members of this initiative. The suppliers were assessed by SGS, and RINA, Italy. (M6), (M9)

Broadly standards of two types:
1. Management standards ISO or SA standards. RAP standards for US market.
2. Product specific standards e.g. AZO free dyes or REACH standards. (M9)

For different products, mandates for particular

Large retailers like Marks & Spencer, IKEA had surprise visits to the factory, to ensure that SA 8000 based standards were being followed. (S3)

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)

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 medium to low premium)(H1)

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)

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:

a. Product definition: 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
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, number of defects, color matching, design perfection etc.

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.

Attributes were set for that product at different levels, depending upon its level of quality or price offering. 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.

Through the BSC I initiative, it was possible for prospective buyers to view factory interiors and consider the supplier capabilities. It had been helpful to get new buyers. (M6)

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 instructions and ensured by supervisors with 100% quality checking. (S7)

Product related standards:
Specified in production were
1. British Retail Standards specifying fire retardancy requirements for cushion filling and upholstery
2. Dyeing standards – AZO dyes are banned in EU countries. AZO free dyes and chemicals are specified.
3. Reach standards for EU based buyers. From 2009 this has been implemented.

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.

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.

b. Losses from suppliers’ failure: 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.

Keesing and Lall (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.

The question that is of interest to the study is:

“Does the upgrading prospects of clusters of local enterprises differ according to the type
and travelled to out of state production locations on a weekly basis. (H5)

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)

The levels or times of control are, before the start of production, during the production process, and finally before packing of final product.

Helps production management, timely delivery, clears doubts, ensures quality parameters met at producer sites (H2)

Buyers visiting factory for design development and new these standards (M9)

In reality buyers themselves demanded lower prices and withheld any volume considerations or price support to their suppliers (M9)

Firm enforces its own legislative governance by having own laboratory facility for testing product and ensuring colour matching(M5)

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)

Textiles Committee (TC)

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)

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.

Each product class of the company has a specified set of standards- a minimum quality level maintained.(S9)

Firm specific standards are conducted in house on finished fabric. They are
a. washing test
b. rubbing test
c. colour matching(S3)

of global value chain they feed into?” this forms the central theme of Humphrey and Schimtz (2003).

They seek to understand what upgrading implications arise from the different types of chain governance.

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.

Governance originating outside the chain seen as testing done by third party firms. Laboratories interact with buyer only. Governance by country or regional standards seen (H9)

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.

To avoid confusion related to this terminology case study firms were studied
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).

Regional or country standards like British Retail Chain (BS) standards (H9). Testing done by 3rd party laboratories like Intertech at their premises.

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 laboratory used for some tests.

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)

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)

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. (S7)

The firm was trying to improve its working conditions and wages so as to attract the 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.

The firm’s quality department handled all in house quality management as well as buyer specified testing requirements. (S3), (S7)

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)

individually though the other theoretical possibilities will be briefly addressed as rival theories.

In examining case data it is seen that

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)

2. All three cases exhibit high levels of legislative governance manifested through the proliferation of standards.

Nadvi and Waltring (2002,Ch 3) from Messner (2003) categorize the great number of existing standards with the objective of outlining trends for policy.

1. Emergence of new global standards is increasingly driven by private actors like NGOs and corporations

2. In recent years a number of industries and business networks have developed industry specific or company specific social, labour, child protection or environmental standards. These are
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back to the communities in which they were made. (H10)
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)

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).

Fair trade initiatives are at two levels
a. Working standards: the firm follows SA Standards
b. Authenticity of organic label 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.

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 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)

It was rare that firms or retail chains had any genuine interest in workers but feared public backlash in the event of non conformance. IKEA, H&M, Habitat etc are firm having very stringent laws. 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. 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).

3. Universal social standards 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.

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
  a) Binding standards: hygiene standards in food industry that secures consumer confidence and increases their credibility and promotion of legitimacy.
  b) Company specific social and
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>| 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) |
| 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) |
| 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) Some judicial governance measures also seen by state government departments through the annual checks and reports generated about firms' labour and environment related |
| environmental standards used as instruments to distinguish between competing firms. Examples of this are OTTO Versand and Karstadt, Levi Strauss and Sainsbury's which are certified by independent institutions. |
| c) Management systems 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. 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. These requirements are seen for high value labels like Bill Brown, Nyblom Kollen, Sterck etc. These are firm customers (H10). 10% of company sales are for organic cotton products with very high quality and product |</p>
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<td>stipulations. (S7) Large retailers like Marks &amp; Spencer’s, IKEA had surprise visits to the factory; to ensure that SA based standards were being followed. (S3) Bigger buyers had stronger governance concerns usually specified by personal communication with suppliers.</td>
<td>consciousness. Very high final product costs. Increases prestige of firm but costs very high for firm. (H10) Firms felt cost of maintaining standards and carrying out testing borne only by firm. Not affordable if buyer support not there (H7) Initial one meter of product checked and verified for factors like weaving quality, number of defects, colour matching and design penetration. (H5) Photography samples, salesman samples done based on initial cotton meter(H2) Firm specific standards and buyer specified standards applied. Both process related and product specific standards. Internationally accepted ISO and SA standards also enforced. This is through supplier evaluation forms.(H6)</td>
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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

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<th>INFERENCES</th>
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<tr>
<td>ISO Certification and SA standards requirements done through classes conducted.</td>
<td>Three types of buyers associated with company.</td>
<td>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.</td>
<td>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. 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:</td>
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</table>
| Staff kept abreast of changes. SA standards taught by certifying agencies periodically till certification (H2). | 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. | 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) | • What is to be produced? This gives clarity about the design of products, both in broad conception and detailed specifications.  
• How is it to be produced? This involves definitions of production processes- the technology to be used, the quality systems to follow, the labour standards and environmental standards that |
| Hands on checking, advising, specifying of quality – helping secondary producers. (H2). | 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) | 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) |  |
| Merchandisers dedicated to buyers-freedom to take quality based decisions with secondary producers. (H2). | 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. | 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. |  |
| Firm has more bargaining power and balanced relationship. (H2) | ISO Certification and SA standards requirements done through classes (H2). | ISO Certification and SA standards requirements done through classes (H2). |  |

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. 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:

- **What is to be produced?** This gives clarity about the design of products, both in broad conception and detailed specifications.
- **How is it to be produced?** This involves definitions of production processes—the technology to be used, the quality systems to follow, the labour standards and environmental standards that
Textiles Committee (organization within cluster) has a role in this. (H2).

Credibility of organization suffered when it gave certificate of Handloom authenticity to non-handloom products (in pre MFA era). (H2)

Buyers work with firms key staff to stress buyer concerns, work methods, product requirements. also tires to convey work methods, quality requirements etc (H1)

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)

Joint defect handling - shared responsibilities.

Jointly setting specifications: 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 enforcement. Some firms use agents to make checks against standards. (S7)

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)

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 process is as follows:

- **Physical product flow**: how much is to be produced and how the flow of product down the chain is to be handled.

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.

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.

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.
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)

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%. (H2)

Evaluation of secondary suppliers checked at several points. These are:

1. Quality in terms of defects - picks per inch, knots per inch, broken ends etc

adherence enabled though

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)

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)

ISO customer evaluation and 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.

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.

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.

3) Fabric design - The engineering and technology aspects. Whether dobby or jacquard - whether to print, Staff dedicated to key buyers - constant link and updated by buyer demands.

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.

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.

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.

Closer to the shipment times, it is accepted
2. Colour matching – to be 100%
3. Bit sample approval
4. Production sample approval
5. Maintaining delivery time
6. Price acceptability (H6)

Bit sample- approved before production started.

Production sample: after the ‘cotton meter’ woven, sent to buyer for approval.

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.

Time adherence: delivery times and schedules must be maintained especially for fashion/season based 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.

Firm was assessed for four criteria and weights given.

1. communication 15
2. delivery 30
3. quality 35
4. response follow up 20

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:

Delighted customers -3
Happy customers - 5
Satisfied customers -3

the costing etc.

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)

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 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.

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.

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)

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)
| To be satisfied | Discusses and ensure do ability of the order. Buyer’s staff is usually designers purchase staff of the company. | 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 highly differentiated product categories. Home based products in a fashion or seasonality infused industry.

2. Strong retail branding requires generation of products for specific needs like promotional samples, trade fair samples, window dressing or visual merchandising and photography samples. This is to
advertise next season releases and to examine their order generation potential.

3. This necessitates small lots, frequent orders and customization of batches of products. This is enabled by the nature of work organization in the firms.

4. The strong commitment to new sample development for the next season is a source of rent.

Buyers’ input is seen in aspects of design, but this is not to say that suppliers are only design takers – their contribution to design development 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.
### 6.6.3 Data Array of Judicial Governance Within And Between Firms

**Table 6.15: Data Array of Judicial Governance Within And Between Firms**

<table>
<thead>
<tr>
<th>FIRM H</th>
<th>FIRM M</th>
<th>FIRM S</th>
<th>INFERENCES</th>
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<tbody>
<tr>
<td>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)</td>
<td>Regarding stringency of the governance measures firm felt that 1. 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. 2. 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) 3. 20% of high quality levels, maintained by very strict standards e.g. high end mail order catalogue companies like Otto Heine who had a promise</td>
<td>Bigger buyers had stronger governance concerns, for more reputed, branded buyers this was a concern. Usually specified through personal communication with supplier. 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)</td>
<td>Judicial governance is seen to be expressed strongly down the chain. 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)</td>
</tr>
<tr>
<td>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)</td>
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<tr>
<td>ISO standards require assessment on yearly basis of delivery, quality of product, response time, and delivery</td>
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<td></td>
<td>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</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a) costs of implementation (salary higher, worker records thorough)</td>
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<td></td>
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<td>b) strong pro-worker terms</td>
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<td>c) emphasis on unionization or worker associations within firm (H7)</td>
</tr>
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</table>
SA 8000 standards
implementation checked at
secondary suppliers’ level since
this was a labour or welfare
standard.
Buyer representatives speak to
them and carry out certification
interviews with them to
evaluate whether firm is truly
attending to their welfare. (H7)
The government or state based
judicial governance was seen in
the 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.

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Governmental legislative control
for labor included aspects like

of quality to their
Customers.(M()
4. For this group the quality was
enforced by the use of:

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

1. Sealer approved sample- first or
initial products produced
according to specifications sent
to buyer or laboratory indicated
by buyer for testing. These are 2. Online inspection at supplier’s
site. The buyer specifies
labs like SGS or Intertech. The
minimum order quantities for
results are sent to the buyer
that order. Physical inspection
who then gives approval. This
done by buyers own team
is called a seal of approval.
3. Physical inspection done by
2. Online inspection- this is done
nominated agencies before
by buyer representative.
dispatch. Just before dispatch,
Agents play a key role here
SGS, BVQ, TC, these
examining quality maintenance
organizations many inspect
at three phases. The initial
goods and only then dispatched.
activity at the start of the
(S9)
production line. Ensuring
specifications are met before
the start, online inspection on
the assembly line and final
product inspection from the
master carton.

A barrier to more firms adopting these
buyer specified standards, and a source
of rent for firm H
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.
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 )

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
4. Buyer’s agents are utilized by
buyers to carry out inspection for standards was not binding for them in
them. Usually done 3 times or at 3 any way. Insistence on adherence to a
standard was not accompanied by price
intervals during the process of
support or any other executive
order fulfillment./ a) first
governance related actions on their part.
inspection to check order

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accuracy. Supplier evaluation
done by buyers yearly.
Continuous improvement
goals(H2)


Chapter 6

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Welfare fund, PF, ESI, Factories Act, Health and Safety, Minimum Wages, Working Conditions etc. the Pollution control board also carried out yearly checks. 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.

In describing production process standards the firm controls were implemented at up to nine points:

1. Before start of production.
2. After first meter (cotton meter) produced.
3. After regular production starts, biweekly checks.
4. Once weaving complete, before according entry into stores, defects noted foot by foot. Only after clearing these were defects allowed.
5. After final weaving, before defect in store, defects noted foot by foot. Only after clearing these were defects allowed.
6. A recent development has been judicial governance exerted through buyer nominated shipping 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 agency for their compliance checks - at rates much higher than if suppliers transfer their costs to seller. Buyers are able to charge buyers are able to charge suppliers.

Technology for testing of fabric was available in house. They had a basic laboratory facility for the same. 100% colour matching and shrinkage testing was done in house. (M5)

The Textiles committee laboratory was used if buyer demanded specific tests. (M5)

Processing, the timing and sequence of processes, making the terms of trade difficult for suppliers. (S9)

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)

As buyers become up market or exclusive quality requirements rise, type of or for modifications thereof, codified and confidentially stored in firm’s sample record rooms. (H9)

Governance measures internal to firm are very strong with quality checking at 5 or 6 points. As buyers become up market or exclusive quality requirements rise, type of or for modifications thereof, codified and confidentially stored in firm’s sample record rooms. (H9)

As buyers become up market or exclusive quality requirements rise, type of or for modifications thereof, codified and confidentially stored in firm’s sample record rooms. (H9)

As buyers become up market or exclusive quality requirements rise, type of or for modifications thereof, codified and confidentially stored in firm’s sample record rooms. (H9)
Six points of process control.

Firm level governance. (H10)

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.

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)

Working Conditions etc. the Pollution control board also carried out yearly checks. (S9)
6.6.4 Trust Based Implementation of Governance

Table 6.16: Data Array of Trust Based Implementation of Governance

<table>
<thead>
<tr>
<th>FIRM H</th>
<th>FIRM M</th>
<th>FIRM S</th>
<th>INFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length of buyer relationships from 1987 (H2)</td>
<td>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)</td>
<td>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)</td>
<td>Lead firm like dominance of buyer not evident in firm. Extent of information sharing high, and order fulfillment capabilities of supplier, well acknowledged by buyer. 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. Link with cooperative producers’ vertically integrated, exclusive producer of fabrics, and product development facility for firm. This is possible because of</td>
</tr>
<tr>
<td>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)</td>
<td>Lead 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)</td>
<td>The buyer stayed on the factory premise for six months, giving personal attention at each stage, pre loom activity, finishing, weaving etc. building construction</td>
<td></td>
</tr>
<tr>
<td>Non hierarchical and non adversarial (H2) Use of ICT for communication at many levels. Use of phone fax and mail, for order placement and continuation. (H3)</td>
<td>It led to many Kannur</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No limits on finding new buyers, no restriction on developing new relation. 1-2 fairs attended every year. Newer buyers obtained by referrals from earlier buyers (H3)</td>
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<tr>
<td>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 a) Long term business linkages. Trust</td>
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</table>
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Focus of company on buyer loyalty, ethics and consistency of orders (H3). Firm has bargaining power with buyer. With secondary suppliers higher bargaining power. Trust with firm H suppliers (cooperatives) very strong, confidential, collaborating, cooperating and mutually supportive. Acts like an extension of company. Backward integration (H5)

Benefits of price passed down to 2'tier suppliers as

More bargaining power for company as price competitiveness not key buyer need. Non tangible attributes like quality and finish, design adaptability selling attributes. (H5)

Trust also seen in the symmetry of relations

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

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)

2. Inter firm relations suffered.

3. Network of handloom cooperatives and individual weavers who operated within the cluster suffered a beating.

4. Buyers no longer insisted on hand weaving so the firms involved in producing genuinely hand woven products from the cluster itself suffered.

5. Between exporters trust fell. The older generations of firms who did not carry out such unethical practice was faced with crumbling market share also considering worker’s safety. The trust relationship was responsible for this. (S5)

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)

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.

Design support was to be provided strong buyer patronage. This is unusual for cooperative establishments. But both supplier and 2 tier linkage able to benefit from association Cooperatives doing business with firm were appreciative of prices that firm H gave for their weaving works. Triangulated with evidence from them. (H6)
<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Development and specifying new products to be developed for next season.</td>
</tr>
<tr>
<td>2.</td>
<td>Buyers risk in event of supplier failure high. This explains the increased investment in supplier capability development.</td>
</tr>
<tr>
<td>3.</td>
<td>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.</td>
</tr>
<tr>
<td>4.</td>
<td>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.</td>
</tr>
<tr>
<td>5.</td>
<td>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)</td>
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<td></td>
<td>When newer generation firms did, without a thought for the social linkages or cluster based strengths</td>
</tr>
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<td></td>
<td>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)</td>
</tr>
<tr>
<td></td>
<td>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)</td>
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<td></td>
<td>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.</td>
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<td>by the German buyer linkages. (S5)</td>
</tr>
<tr>
<td></td>
<td>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)</td>
</tr>
<tr>
<td></td>
<td>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)</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>FIRM H</th>
<th>FIRM M</th>
<th>FIRM S</th>
<th>INFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of firm agent in buyer markets, fashion designers working on commission to get approval for designs developed within firm (H3).</td>
<td>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.</td>
<td>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.</td>
<td>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”.</td>
</tr>
<tr>
<td>Able to market firm’s own design on designer’s recommendation QC staff and cooperatives confidentially developed designs suggested by ‘mood boards’ or staff of buying firms. Sent to buyer for approvals H2)</td>
<td>Kier drying instead of air drying was installed. This was important equipment, especially in the monsoon when air drying was difficult.</td>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td>Inspection at every stage of product development by firm staff. Decision of which producer is taken by quality</td>
<td>Some of the early improvements in 1995, when the present owner</td>
<td>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</td>
<td>The typology of upgrading developed by Humphrey and Schmitz indicates four possible routes that may occur in firms:</td>
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<td>a. Process upgrading: This is enabled by superior technology, reorganizing production to increase efficiently and increasing output through work management.</td>
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</tbody>
</table>
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.

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 joined the firm were related to perr winding, bobbin winding machines which were put in to save the labor cost. (M3)
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)

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 establishment of a number of finishing equipments, especially suitable for made up categories. (S7)

Up gradation of firm activities, a more clear and different focus that added more value to it was called for. (S10)

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)

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 b. Product upgrading: this happens when the firm moves into more value added product lines or sophisticated product categories that has greater unit value.
c. Functional upgrading: acquiring new functions in the chain or abandoning existing functions that are no longer value enhancing to increase the overall skill content of activities.
d. Value chain upgrading: knowledge derived from operating in one kind of chain is utilized in other chains, or catering to diversified chains with other needs.

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 OBM (own brand manufacturers). This was seen among East Asian suppliers of garments working for large US buyers.

He described this as a process of ‘organizational succession’. This meant that the firms started producing for buyers catering to the low end of the market and as their capabilities improved and
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.

Usually if a second tier supplier had recurring quality problems it was avoided next season.

These measures enabled the process of production and work organization to become more efficient. (H6)

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)

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

advice to an established chain store in that country. (S5)

This link would be used for setting up base in the EU and distribution to other countries.

Some high value treatments carried out on fabrics to increase its value or change its finish like zero zero finishing – preshrinking done

Chemical additives that change nature of the product e.g. enzyme treatments like softening, fire retardancy and water repellency. (S8)

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.

From case study firms it is seen that local producers experience significant process and product upgrading.

Process upgrading is manifested in

a. Use of organizations skill in streamlining production: 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.

b. Dispensing with low value adding activities: 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.

c. All case study firms have demonstrated the ability to take over less strategic producer
streamlining production happening in a set of places in India. (M6)

These are things like coding, packaging, certification and a range of logistic services. (Dolan and Humphrey, 2000 & Humphrey, 2000)

c. 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 at achieving needs of the industry:

1. Variability of end products are high.
2. Small batch or small volumes of output.
4. High variety in end use, highly differentiated made-ups require very specific stitching, cutting and sewing operations.

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### 6.7.1.2 Between Links

#### Table 6.18: Data Array of Process Upgrading Between Links

<table>
<thead>
<tr>
<th>FIRM H</th>
<th>FIRM M</th>
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<tr>
<td>A ‘cotton meter’ first sent to buyer for approval. Once production approved quality personnel visited 2’ producers a) before production b) during production(H5) to enable high quality of output following processes systematically followed: a) Inspection at every stage b) Mandatory form developed at each stage. c) Inspection formats till level of post packing inspection d) Different merchandisers for different buyers (H6)</td>
<td>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 own facility. This was because firms were not willing to take up handloom products as the price was a limiting factor. The within cluster power looms offered 1. Lower price than handloom, though slightly higher than Karur based production 2. Greater productivity 3. Good quality that was inherent to the cluster. 4. The weaving quality and the finish was superior to out of cluster output</td>
<td>Process efficiency upgrading between links Took place as a result of the buyers visits twice a year. The benefits were (S9) 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. b. What were the colour trends to concentrate on for that season c. The chances of orders being passed for approval were increased. d. A better codification of</td>
<td>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. 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) <em>Evolving topologies: As product upgrading becomes common the marketing network topology of the value chain (Humphrey and Schmitz, 2002) becomes evident.</em> 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.</td>
</tr>
</tbody>
</table>
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. (?) 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) 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.
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

<table>
<thead>
<tr>
<th>FIRM H</th>
<th>FIRM M</th>
<th>FIRM S</th>
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<tr>
<td>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)</td>
<td>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)</td>
<td>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)</td>
<td>Firm S attempted to differentiate its offering through specialized finishing practices in an attempt at functional upgradation. 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. 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.</td>
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<td>New products may have embroideries, vale adding embellishments or innovative packaging for retail. (H5)</td>
<td>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)</td>
<td>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)</td>
<td></td>
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<tr>
<td>Large range of products in home textiles. Firm must be able to produce new products, new finishes, new oaks in house. (H6)</td>
<td>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’,</td>
<td>The brand development strategy was towards a new product category. It was directed</td>
<td></td>
</tr>
<tr>
<td>Use of pictures, magazines, catalogues for design development. (H2)</td>
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Large variety of trims, zips piping, special stitches done with specialized finishing unit. Two to three finishing units to suit value of product (H5)

- 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.
- 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.

Ten percent of buyers have no specific ideas about color, texture etc. They expect good ‘Ambiance’

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)

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)

New sample development was linked to fair participation. The development of samples and follow up was after fair participation was crucial to firm 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)

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 home.

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.

A fifth type of relationship that needs to be highlighted is the ‘modular production networks’. Developed by Sturgeon (2002) it indicates the following aspects:

1. Buyers purchase customized products that they design and therefore must exchange information on product specific scheduling with suppliers.
2. This information on products and processes can be codified in technical norms and this makes interaction between buyer and supplier less complex.
3. Suppliers also have necessary skills for the tasks they undertake and this reduces need for monitoring by the buyer.
4. This enables lowering of transactional dependence though products are
<table>
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<th>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.</th>
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<tr>
<td>success (M4)</td>
</tr>
<tr>
<td>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)</td>
</tr>
<tr>
<td>home. The firm was able to cater to this need because of the equipments they had for the same. (S7)</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>specific to each customer.</td>
</tr>
<tr>
<td>5. The relationship enables the buyer to deal with different suppliers across their products and these suppliers have different or various customers.</td>
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<tr>
<td>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.</td>
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<tr>
<td>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</td>
</tr>
<tr>
<td>through their facilities or in association with secondary suppliers.</td>
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<tr>
<td>This enables suppliers to deal with different buyers, since the same machinery or processes are used, but the network minimizes customization of each individual relationship.</td>
</tr>
<tr>
<td>What are the benefits that local producers have through linking with global value chains?</td>
</tr>
<tr>
<td>Improvement in production processes, attaining consistency and learning about the processes required for high quality and output passed down the chain. This increases the speed of responses to customer orders and makes them ready to take up new customers with diverse needs since there is a supplier confidence about their learned ability to undertake the order.</td>
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### 6.7.2.2 Between Links

#### Table 6.20: Data Array of Products Upgrading Between Links

<table>
<thead>
<tr>
<th>FIRM H</th>
<th>FIRM M</th>
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</table>
| **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)**<br><br>**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)**<br><br>**Finishing treatments taken up to increase final product look and feel, and increasing its value are** | **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’**<br><br>**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)**<br><br>**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** | **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)**<br><br>**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.**<br><br>**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** | **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.**<br><br>In examining the way that case study firms have shown upgrading, the following sources of evidence emerge:<br><br>1. making, mutual design support, providing sourcing and delivery expertise and enabling trust: essentially a high degree of trust exists between producers**
Within state:
1. Zero shrinkage finish done at Hanweev, Chirakkal
2. Stendering or Calendaring and Ironing at Malabar dyeing company, South Bazar, Kannur. (H10)

Out of state treatments are:
1. For laminating fabrics (water resistance) Erode
2. Brushing of fabric, (for soft feel) Erode
3. Quilting of fabric (fusing or stitching a few layers for a thick, feel), embroidery at Erode
4. Printing, with superior finish at Tirupur. (H10)

In deciding whether to go for a new buyer the following factors considered 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)

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)

Private power looms in Kannur was suggested as an alternative, but preferred source of production the firm. It was an alternative to Karur because
1. Greater control over production
2. Better inspection, monitoring and quality control
3. Almost continuous communication between company and secondary producers so better control and 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 that 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, t and buyers.

1. **Personalization**: 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.

2. **Continuous new product development**: 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
### Analysis of Strand I: Case Study Research

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- **a.** Quality standards they require. If not meeting the firms inherent quality standards, is not preferred.

- **b.** Costing: examining components of cost and how well firm can provide specific products at particular price points.

- **c.** If buyer satisfied asks for samples- these maybe at fairs or may be related to season or special promotion. May be new sample.

- **d.** Firm develops new sample as per specification and air freights it. Approval is followed by orders. (H9)

The following types of samples are asked for:

<table>
<thead>
<tr>
<th>a. Production sample (small)</th>
<th>b. Salesman sample (personal selling at buyers end)</th>
<th>achievement of targets.</th>
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<tbody>
<tr>
<td>Fairs helped them to do that. On an annual basis at least two fairs visited in the general product category (M8).</td>
<td></td>
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<tr>
<td>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)</td>
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</table>

Private power looms was suggested as an alternative but preferred source of production for the firm. It was preferred to Karur because:

1. Greater control over production was achieved.
2. Better inspection, monitoring and quality control.
3. Almost continuous communication between company and secondary producers for better control and achievement of targets.

The strong belief in branding stems from the following points:

**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.

**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 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.

### 3. Quality certifications and standards: 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...
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Photography sample

Trade fair samples for B to B fairs.

The variability of products seen in the different types of samples.

Ability to vary output/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)

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)

Finishing treatments taken up to increase final product look and feel, and increasing its value are:

Within state:
1. Zero shrinkage finish done at Hanweev, Chirakkal
2. Stentering or Calendering and Ironing at Malabar Dyeing Company, South Bazar, Kannur

Out of state treatments are:
1. For laminating fabrics (water resistance) Erode
2. Brushing of fabric (for soft feel) Erode
3. Quilting of fabric (fusing or stitching a few layers for a thick, feel) Erode
4. Embroidery at Erode

This variability in production lots and sizes was difficult for the 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.

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.

Their products or in the processes that they entail upgrade themselves.
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

- Power looms in Kannur 50%  
- Cooperatives and individual weavers 20%

A way to do this was to engage in own branding or in creating fabric for a particular brand which would have market acceptance. (S10)
### 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**

<table>
<thead>
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<th>FIRM H</th>
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</table>
| 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. | As some of the major buyers were importers who supplied to retail chains, firm had to reach product ready for final store.  
1. Low value activities outsourced. Use of the home workers in the proximity to do preprocessing activities like winding and warp development.  
2. 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.  
3. Finishing activities improved and equipments for the same installed. Between chain links the use of finishing treatments has been taken | 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)  
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.  
This was possible only because | 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. |
| 2. 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.

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.

up to increase final product look and feel. Within the cluster itself rendering and calendaring is done and out of state, lamination is done.

of the foreseeable 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)

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)

These additional activities enabled them to produce high value goods as they did not have the scales low value production entailed. (S7)
6.7.4 Data Array of Evidence of Value Chain Upgrading

Table 6.22: Data Array of Evidence of Value Chain Upgrading

<table>
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<th>FIRM H</th>
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<tr>
<td>As benefits of handloom production fell for buyers (post MFA), they became more cost conscious. Fewer buyers could purchase fabric at handloom prices. Mass market segment, where volumes were important and quality needed to be fair, became important. 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. A separate value chain comprising firms in Karur, Tirupur and Erode, developed for large scale production. (H1) Outsourcing and subcontracting of suppliers done by most exporters in cluster. . This maybe because 1. Cost of handloom cloth production at</td>
<td>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.</td>
<td>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 a. small batches of production b. high width and high counts of fabric c. high variability of orders d. smaller sizes of orders. (S10) To get the benefit of its better infrastructure it would have to produce in larger quantities. 1. Development of individual branding or own branding was imminent. Distribution and marketing would be taken up if production was done by the firm. 2. Domestic or retail entry, as the retail opportunity was rising. Larger volumes demanded could be produced by firm.</td>
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</tbody>
</table>
2. Lowering price only possible with increasing volume of production. This cannot be done within the cluster.

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.

(S10) 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)
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

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<thead>
<tr>
<th>FIRM H</th>
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<tr>
<td>Quality- firm tries to do business with buyers for whom good quality or high quality is a pressing need. (H4) Company focuses on profit, not volumes. Charged higher than average prices, even if volumes less as quality was commensurate with price. (H4) Firm attempts to differentiate their product offerings with non-tangible attributes like certified raw material, standards and ETI or Fair Trade practices. (H4) Traditional advantages of dyeing and water quality was being lost. Firm was finding it more beneficial to shift.</td>
<td>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) Execution of changes and modification of product and queries from buyers were very vast. This was another order winning characteristic. (M5)</td>
<td>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) 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)</td>
<td>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: 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</td>
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Activities out of cluster to serve market requirements. Knitwear requirement sourced from Tirupur was a new product category with huge range and possibility that buyers valued.

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)

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)

Order-winning characteristics chosen by the firm were:

1. New designs every season
2. Innovative products
3. Reasonable prices
4. Responsiveness to buyer demand

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)

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)

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)

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.

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.

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...
| 1. | New designs every season |
| 2. | Innovative products |
| 3. | Continuous improvement in product quality |
| 4. | Reasonable prices |
| 5. | Flexibility in production |

Order winning characteristics chosen by the firm were:

| 1. | Reliable delivery |
| 2. | Continuous improvement in product quality |
| 3. | Reasonable prices |
| 4. | Faster delivery |
| 5. | All in one factory premise |
| 6. | Finishing and packing |

The CSFS are never stagnant but change with time and with segment to which the firm caters. (Kaplinsky & Morris, 2000)

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>| 1. | New designs every season |
| 2. | Innovative products |
| 3. | Continuous improvement in product quality |
| 4. | Reasonable prices |
| 5. | Flexibility in production |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th>6. Responsiveness to buyers demand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>7. Faster delivery</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8. Reliable delivery</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9. Compliance with SA standards</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10. Hand loomed origin of product</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11. All in one factory premise</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12. Finishing and packing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13. Better communication, query handling for orders</td>
</tr>
</tbody>
</table>

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.
6.8.2 Data Array of Order Qualifying Characteristics

Table 6.24: Data Array of Order Winning Characteristics

<table>
<thead>
<tr>
<th>FIRM H</th>
<th>FIRM M</th>
<th>FIRM S</th>
</tr>
</thead>
<tbody>
<tr>
<td>Query handling and responsiveness to customer complaints stated as key need - responding to questions, requests for information, and ability to take action. Communication skill, and problem solving (H7) 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) Timing of market related activities key to success. For shipment in February, sample development in September. 1. July-August – concept development, examining mood boards, trends, colours, fixing choices. 2. End of September, on design concepts, alteration or changes made, order placed. Delivery time considered.</td>
<td>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) 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) Key abilities that improved their process efficiency were: 1. Reliability of staff 2. Quick response 3. Spontaneity. Ale to act to a complaint fast. Hands on response, by going back to factory related activity. 4. Complete design confidence. The region was different from Karur, the close competing cluster for home textiles</td>
<td>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) 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. The following factors helped firm to develop a preference among buyers (S6) 1. Emphasis on continuous new product development. 2. Ability to meet price and deliverability schedules. 3. Firm has bargaining power in refusing orders because of a continuous emphasis on improving the</td>
</tr>
</tbody>
</table>
3. October to December production done in factory according to work orders. Closely monitored for timely action, crucial processes and finishing.
5. February batches of finished, retail wrapped products at
6. Retailer’s warehouse or importer warehouse.
8. Buyers or representative arrive at factory in August/September. (H9)

Order qualifying characteristics selected by the firm were
1. Flexibility in production
2. Responsiveness to buyer demand
3. Reliable delivery
4. Compliance with social accountability standards
5. Hand loomed origin of product
6. All in one factory premise

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)

Order qualifying characteristics selected by the firm were
1. New designs every season
2. Continuous improvement in product quality
3. Flexibility in production
4. Faster delivery
5. Compliance with social/labour standards

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)

Order qualifying characteristics selected by the firm were
1. New designs every season
2. Innovative products
3. Flexibility in production
4. Responsiveness to buyer demand
5. Reliable delivery
6. Compliance with social standards
7. Hand loomed origin (for specific buyers)
8. Better communication, query handling

establishment, investing in higher quality finishing and continuously improving the systems in place for ensuring the buyers satisfaction.

4. Stringent emphasis and control order finishing and packing. 100% inspection of final product was done. (S6)

Order qualifying characteristics selected by the firm were
1. New designs every season
2. Innovative products
3. Flexibility in production
4. Responsiveness to buyer demand
5. Reliable delivery
6. Compliance with social standards
7. Hand loomed origin (for specific buyers)
8. Better communication, query handling
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.
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-friendly 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 as well as importer and distributor of made up categories in own brand, own brand in other stores)](chart.png)
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)](image-url)
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](image-url)
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)

![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)](image)

**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

![Radar Chart comparing firm S’s assessment of buyer’s requirement with firm’s assessment of own performance in meeting buyer’s requirement](image)

*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

<table>
<thead>
<tr>
<th>FIRM M</th>
<th>FIRM H</th>
<th>FIRM S</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>1. Individual retailers with company owned retail outlets.</td>
<td>1. Whole sale importer distributors with own stores and supplying to other chain stores and single standing outlets.</td>
</tr>
<tr>
<td>2. High quality consciousness and price oriented. Distributors or wholesalers called importer wholesalers – own brands and other retail store private labels supplied.</td>
<td>2. Store owned private labels of retail establishment.</td>
<td>2. Retail chains head quartered in the EU, having 50-100 stores strength in different EU based countries.</td>
</tr>
<tr>
<td>3. Agents for buyers in smaller EU based countries</td>
<td>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.</td>
<td>3. Individual retailers-3-5 shops selling high end, high value products in low quantities.</td>
</tr>
<tr>
<td>4. Mail orders or catalogue based companies which have strong quality and price option.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 6.9.2 Data Array of the Key Product Categories

<table>
<thead>
<tr>
<th>FIRM M</th>
<th>FIRM H</th>
<th>FIRM S</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Made ups in core categories. Bed linen, table linen, bath linen with better finish and pricing.</td>
<td>1. Bed linen in premium category, high counts with high end finishing for luxury segment of hospitality sector.</td>
<td>Less amount of output as finishing rolls.</td>
</tr>
<tr>
<td>2. Stuffed items or cushions, according to specific sizes and shapes for room/ use specific needs</td>
<td>2. Lifestyle products – items as single orders, coordinated to rooms, areas or function</td>
<td>1. Finished products in key categories like kitchen linen, table linen, and table linen.</td>
</tr>
<tr>
<td>3. Beach items and pool items, waterproof and weather proof items for outdoors or specific settings</td>
<td>3. Promotional items and private label goods or orders. Of upper middle category Retailers</td>
<td>2. Sets or groups of items serving particular needs sourced from different producers or location but sourced as pooled items.</td>
</tr>
<tr>
<td>4. Lifestyle based accessories or products</td>
<td>4. Children or baby garments and items for specific purpose rooms coordinated to rooms and purposed, knitwear and hand worked items</td>
<td>3. Higher value made ups or lifestyle goods in less quantity. For buyers with higher finishing requirements.</td>
</tr>
</tbody>
</table>
### 6.9.3 Key Destination of Sales

Table 6.27: Data Array of the Key Product Categories

<table>
<thead>
<tr>
<th>FIRM M</th>
<th>FIRM H</th>
<th>FIRM S</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on volume</td>
<td>Based on volume</td>
<td>Based on volume</td>
</tr>
<tr>
<td>1. UK</td>
<td>1. EU based countries</td>
<td>1. Japan</td>
</tr>
<tr>
<td>2. USA</td>
<td>2. Switzerland</td>
<td>2. Germany (EU)</td>
</tr>
<tr>
<td>3. EU based countries</td>
<td>3. France</td>
<td>3. Australia</td>
</tr>
<tr>
<td>4. SA</td>
<td>4. Netherlands</td>
<td>4. Netherlands, Norway, Israel, France</td>
</tr>
<tr>
<td>5. AUSTRALIA</td>
<td>5. Japan</td>
<td>Consciously trying to decrease dependence on US and UK due to dependence</td>
</tr>
<tr>
<td>6. Not consciously trying to increase USA based value retailers as buyers do not have beneficial terms of trade</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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