CHAPTER 1

INTRODUCTION

1.1. Introduction

Value chain interventions are emerging as a significant process in small enterprise development. The value chain approach necessitates the developmental process for small enterprises to focus on the entire value chain rather than focusing on few aspects of supply of a particular input or credit. It suggests to adopt a market-led approach. The objective is to create an inclusive market for small enterprises. There is tremendous interest among the scholars and practitioners to study how the value chains facilitate small enterprise development. This has lead to emergence of a new field of study called inclusive value chains. As observed by Harper (2009), an inclusive value chain is created through designing a business model by which a business creates and captures value within a market network of producers, suppliers and consumers. There is consensus among scholars that, value chain intervention can enable the poor to participate in the markets (Jones 2011). This is achieved through facilitating better functioning of markets by increasing flow of information and knowledge to the small producers and empowering them to sell in more stable and high value markets. Drawing insights from clusters, subsector analysis, business services market development and global value chains analysis, this study analyses the process of integration of small-scale handloom enterprises in Kerala into the global markets.

The importance of small enterprises\(^1\) as an agent of economic development and poverty reduction has been well recognised across the World (DFID 2005; FAO 2005). As a result, small enterprises are increasingly attracting government attention as a source of economic growth and employment. In India, small-scale sector accounts for 7.28 per cent of country’s GDP, 37.5 per cent of manufactured outputs and 43 per cent of its exports. This sector provides employment to more than 100 million persons through 26 million enterprises (GOI 2014). Small-scale sector in India is highly heterogeneous. While one end of the small-scale sector contains highly innovative and high growth enterprises, a large number of them (more than 94%) are in the informal sector and are

\(^1\)
characterised as survival enterprises owned and operated by the economically weak. This heterogeneity and the unorganised nature of the sector attract policy making and programme implementation. Apart from the heterogeneity, small enterprises add a new dimension to global competition. Recent researches show that, even smaller enterprises can access to global markets (Harper 2009; Bughin et al. 2015). In 2013, e-Bay analysed a sample of its small sellers and found that, more than 95 per cent of these firms exported to other countries and they reach on an average 31 different markets. Overall, the sellers based in India are reaching 194 different markets around the globe utilizing the global empowerment network, as one of the ways for small enterprises to reach and serve consumers in the international markets (e-Bay 2013).

Over the past few decades, small enterprise development field is undergoing rapid change across the world. India is not exception to this trend. Starting from the minimalist approach, a dominant approach to small enterprise development till 1980s, the approaches to small enterprise development have gone through cluster development and subsector approaches during the early 1990s, and thereafter, the focus of small enterprise development has shifted towards a sustainable and cost effective delivery of business development services (Meihlbradt and McVay 2005). More recently, the trajectory of small enterprise development has evolved into a market development paradigm (Jones and Miehlbradt 2009; Jones 2011). A crucial element in these new approaches is the understanding of the limitation of enterprise development strategies involving subsidised credit and inputs, and the recognition of the need for a market based approaches for small enterprise development. As opposed to the traditional approaches, the emerging approaches in small enterprise development focus on bringing broad systemic changes by addressing the sector specific issues, rather than focusing on the issues facing the individual entrepreneurs.

The concept of market development is still evolving. International Labour Organisation (ILO 2008) views market development as an initiative that stimulates the market system to better engage and channel the benefits to small producers. The ILO report further clarifies that, market developers do not link individual enterprises to customers; instead they improve the way the markets work for a large number of small enterprises. They do this by working with wholesalers, suppliers, technology providers, innovators, policy makers, associations and business institutions to improve the way market works for the small producers (ibid). A general view is that, adoption of market development

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approaches could help small enterprises to reach productive markets and improving their competitiveness (DFID 2005; ILO 2008).

The value chain development is a recent addition to the market development paradigm. Underlying the importance of value chain approach, Kaplinsky (2000) describes the process by which a firm [can] improve its competitiveness. Firm’s competitiveness is achieved through: increasing the efficiency of firm’s internal operations, developing inter-firm linkages and upgrading along the value chain. The value chain approach recognises that, small producers operate as participants in complex market systems; hence their condition and growth prospects cannot be understood when viewed in isolation.

1.2. Background to the Study

The concept of value chain was developed and popularised by Michael Porter in his book, *Competitive Advantage*. Porter (1985) described value chain as full cycle of activities from initiation to final consumption stage of a product or service.

Literature provides several chain concepts. These include: *Filiere approach* (Raikes et al. 2000), *linkage approach* (Hirschman 1958), *commodity/global commodity chain* (Gereffi and Korzeniewicz 1994) and the *global value chain analysis* (Gereffi 1994). All of these approaches deal with the flow of products and services and the co-ordination of activities along the chain. The linkage approach states that, investment in one sector will lead to demand effect in another sector (Hirchman 1958). The *filiere approach* was developed for analysis of the vertical integration of firms in agriculture trade (Raikes et al. 2000). The approach involves mapping of actual commodity flows, the agents and activities within a *filiere* (chain). Later, this was modified into Global Commodity Chains (GCC) analysis. A global commodity chain is viewed as a set of transnational inter-organisational network which link the labour, production, households and enterprises into one another within the global economy (Gereffi and Korzeniewicz 1994). The GCC analysis focused on the increasing economic integration of international production and marketing chains, as part of the globalization process. These two approaches differ in their sectoral focus and analytical rigour. While the *filiere approach* was
developed specifically for analysing flow of agricultural commodities, the GCC analysis focuses on manufacturing firms. Apart from mapping the flow of goods and services along the chain, GCC analysis highlights power relations between the firms along the chain. Based on the power relations along the chain, the GCC analysis distinguishes between two types of chains: buyer-driven commodity chains and the producer-driven commodity chains (Bair 2005). During 1990s, the global value chain (GVC) analysis has been emerged, shifting the focus of analysis towards governance of the value chain. Governance implies the co-ordination of the activities along the chain (Gereffi and Korzeniewicz 1994; Humphrey and Schmitz 2000).

In recent years, the value chain approach is widely applied in small enterprise development (Harper 2009; Kula et al. 2006; Reji 2013a; Reji 2013b). The emphasis is on building an inclusive value chain system by linking the smallest producers with the global value chain/global markets. This is achieved through designing appropriate business model for creating value for both the producers and consumers. Inclusiveness comes from the type of value identification, value creation and value capture, but more importantly, from value sharing with small holders or smaller links in the chain (Harper 2009).

Value chain development process consists of multi-layered activities, starting from the assessment of the opportunities and constraints in the choosen sector. Key focus of value chain assessment is the mapping of the structure of value chain and the functions of firms in the value chain. The relationship between value chain participants is then examined, focusing on how these relationships affect access to information, learning and benefits. This is followed by design of potential intervention strategies. Once interventions are identified, a competitiveness strategy is designed by identifying and establishing competitive advantage, developing a commercial upgrading strategy, and creating process of sustaining competitiveness.

There is a tremendous interest among the scholars in understanding the process of integration of small producers into global value chain 4(Schmitz and Nadvi 1999; Humphrey and Schmitz 2000; Bair and Gereffi 2001; Rabellotti 2004; Nadvi and Halder 2005; Ruzzier et al. 2006; Wright et al. 2007; Kalantaridis and Vassilev 2010; Ponte et.al. 2014; Dallas 2014; Moriss 2014; Kumar and Mahoney)
Most of the studies dealt with linking of industrial clusters into global value chains. Major themes of the studies are centered on governance and upgrading that have been examined from the context of inter-firm relations within a cluster or being part of global value chains. These studies show that, strengthening of inter-firm relations is an important aspect of their integration into markets. By strengthening these linkages, it is argued that, firms can reduce transaction cost, bring collective efficiency thereby improving competitiveness. The opportunities created through inter-firm relationships and the governance pattern of the value chain creates an environment for firm level upgrading; the result is improved competitiveness of the firms both in the local and international markets. Studies also show that, entry into global value chain enables them to adopt increased innovation practices (Nadvi 1995; Schmitz 2004; Bell 2005; Asheim and Coenen 2005; Chaminade and Vang 2006; Pietrobelli 2011).

As evident from these studies, a firm’s competitiveness is embedded in the value chain it operates (Appelbaum and Gereffi 1994; Gereffi and Korzeniewicz 1994; Gereffi 1994, 1999; Humphrey and Schmitz 2000; Gereffi et al. 2001; Bair 2005). The scholars agree that, firms are able to improve their competitiveness as a result of their integration into global value chains; but the advantages are often skewed towards large firms. Micro and small enterprises encounter various constraints that affect their business performance and undermining their entry into global markets. They are often characterised by low productivity, poor information access, limited technical know-how and lack of capital and market access, mostly serving local markets (Anderson 1982; Boomgard 1992). In this context, it is important to understand the way in which small enterprise are able to improve their competitiveness and gaining access to the global markets.

The process of integration of small producers in to global value chain has not yet been a subject of academic research in India. The existing studies in Indian context mainly focus on the value chain models and interventions (Harilal et al. 2006; Harper 2009; Singh 2012). It is important to understand the way in which the small firms are able to integrate into global value chains and how they improve
their competencies. This research attempts to understand the process of integration of small-scale handloom enterprises into productive markets.

1.3 Handloom Sector in India

1.3.1 Overview of Handloom Sector

Handloom sector has a long history. The existence of the earliest textile clothes can be traced back to the third millennium (Gillow and Barnard 1999). Handloom sector has undergone several booms and burst since industrialisation and has survived many crises (Specker 1989; Harnett 1991). The sector still provides employment and livelihoods to millions of people and occupies a niche market in India as well as across the globe. Scholars agree that, the handloom sector in India has survived in the markets on two grounds. The first is associated with the weaver’s technical mastery and flexibility to adapt their designs to suit to any particular market (Cooper at al. 1996). The second is associated with their abilities in finding niche markets (Roy 1989).

Handloom in India is closely associated with national pride and a symbol of freedom movement. In the post- independence period, both the Central and State governments have initiated several measures aimed at the development of this sector. The survival of the handloom sector in India, especially in the post independent period is attributed to these measures as well as well as the producers’ tremendous ability to resilience, demonstrated in their fight to competition in the markets (Annapurna 2006).

Harnetty (1991) found two major reasons for the survival of handloom sector in India. First is associated with the industry’s adaptability to mill-made yarn resulting considerable quality improvement of the products and market acceptability. The second is associated with the clothing habit of the consumers with considerable taste for exquisite traditional hand-woven fabrics for its aesthetic value. Other scholars have also reported that, the handloom sector was able to survive based on
capitalising on the aesthetic value of the products and exploring the *niche* markets (Roy 1989; Norris 2011, 2013).

**1.3.2 Production Process and Organization**

Handloom production consists of three major processes: processing of yarn, weaving and processing of cloth. In the production front, the handloom sector in India is characterised by two main organizational forms: traditional weavers working under master weavers and the co-operatives.

### 1.3.2.1 Master Weavers

*Master weavers* assume as a significant intermediary connecting the individual weavers to the final markets (Niranjana et al. 2006). Historically, the role of master weavers has recognised as a valuable intermediary, because the trading firms, mostly owned by the British, found it convenient to deal with the master weavers to supervise the production process and ensuring the quality of products rather than dealing with individual weavers spread across several villages (Bagavatulla et al. 2010). In the course of time, these middlemen started controlling the production and marketing.

Several studies have described how master weavers operate (Mukund and Sundari 2001; Niranjana et al. 2006; Bhagavatulla et al. 2010). As an important intermediary, master weavers work with a group of weavers, who work under him as regular customers. Cable et al. (1986) describe this system of production as ‘putting out system’. Under this system, the master weaver himself makes the investment in yam; weavers directly under him weave the product, and the final product is marketed through the master weaver’s own networks. This system is built around a complex economic transaction in which each weaver gets small amount of loan from the master weavers, the payment of which is recovered from their wages (Mukund and Sundari 2001). According to Syamasundari and Niranjana (2006), master weavers handle a large volume of business, but their entry into the trade has been managed differently by different entrepreneurs in terms of their approach to flexibility, product differentiation and new markets.

### 1.3.2.2 Producer Organisations

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The emergence of co-operatives was one of the significant organizational innovations in the handloom sector. Through the mobilization of individual weavers and resources, setting up of infrastructure facilities, procurement of raw materials and marketing of products, the co-operatives perform an important role in the spread of entrepreneurship in the handloom sector. The co-operatives are nurtured and supported by the government. Although, the co-operative movement has been started in the handloom sector as early as 1900s, the movement has caught the attention of the national leaders in the post independence period. Cooperatives have been formed so that weavers get regular wages and reducing the exploitation of intermediaries. Within the co-operative fold, there are two patterns of organizations: the primary weaver’s co-operative societies and the industrial weaver’s co-operative societies. In the case of the former, the producers work from their homes and the society procures and supplies the raw materials to the weavers who, perform the weaving related activities and return back the finished products to the society. The society performs marketing of the products through participation in trade-fairs and exhibitions. In the case of industrial co-operatives, the production activities are centralized and mostly take place in the work-shed established by the co-operatives. The co-operatives undertakes all the production function starting from procurement of yarn, dying, warping, weaving, finishing and marketing of the products. The primary co-operatives are federated in to the apex organisation at regional or state level. The apex societies centrally procure the raw materials and supply the same to the individual weavers through the respective societies.

The co-operatives perform all the jobs performed by the master weavers, ultimately replacing the role of the master weavers. Scholars points out several merits and demerits of the co-operative forms of production. Bhagavatulla et al (2010) report that, compared with the entrepreneurial activities of the master weaver, the cooperatives have had to work within a highly bureaucratic system which inhibits entrepreneurship at every level. Niranjana, et al. (2006) report several problems along the production-marketing chain in the co-operative model, including irregular employment either due to lack/inefficient use of working capital within the cooperative, or due to irregular yam supplies, or due to collapse of the marketing agencies which compels weavers to turn to master weavers. Mukund and
Sundari (2001) report that, all successful cooperatives have worked well and have managed to market their own output taking advantage of the latest marketing trends.

1.3.3. Current Trends in Production

Handloom sector in India is dominated by micro and small-scale units. Most of the handloom units (1.05 million) are family owned units (NCAER 2010). There are 23.77 lakh installed looms in household and non-household units in the country. Of the total weavers, two-third (61%) are independent weavers, who purchases raw materials from the market, make fabrics or allied products and sell the products in the market by their own. Quite a significant number of them work on contractual basis, either with master weavers or private firms/co-operatives. Around 96 per cent of the units are household units. Only less than five per cent of the weavers work with co-operatives/private institutions. With regard to the ownership of the looms, close to 70 per cent of them, have ownership of looms; the rest work on other’s looms on daily wage basis. Of all the looms, 56 per cent of them are frame looms, 26 per cent pit looms and 13 per cent loin looms.

An interesting feature of the handloom sector in the country is the presence of a large proportion of young people in weaving. Majority of them, nearly three-fourth are women. Of the total handloom workers, nearly half of them are in the productive age group of 18-35 years and one-fourth in the age group of 36-45 years, and 15 per cent in the age group of 46-60 years. Weaving work is spread among various social classes. Across the social class, handloom work is primarily undertaken by Other Backward Classes (OBCs) (41%), followed by Scheduled Tribes (STs) (22%) and Scheduled Castes (SCs) (10%) (NCAER 2010).

The total value addition in textile and clothing sector is estimated at Rs 718520 million. The estimated value added in the handloom sector is Rs. 44493 million. NDME sector\(^7\) contributes the largest share of 23.84 per cent of the total value added in handloom sector and OAME accounts for another 23.21 per cent share (NCAER 2010).

1.3.4. Technology and Innovations
The handloom production has witnessed several technological innovations right from the early twentieth-century itself. The main areas of technological innovations were in warping, weaving and dyeing. According to Roy (2002), the technological innovation in handloom sector is associated with two mutually critical areas. The first is associated with processing and the second associated with organizational innovations. The process innovation has concentrated on bringing changes in processing through selective mechanization and the organizational innovation dealt with bringing efficiency through co-ordinating the production activities. The handloom sector in India is characterized by the slow progress of technological innovation. In addition, Haynes (1986) and Harnetty (1991) have found region specific variations in technological innovations. For example, in central India has experienced slow technological change, where as in western India, there was high readiness to accept technological change.

The early innovations in weaving has confined to shift from pit looms to frame looms and the subsequent innovations involved using the dobbi or the jacquard to produce more intricate weaving patterns. Roy (2002) attributes these changes as direct responses to meet the demands from within the sector, rather than as a response to competition from outside, such as mill-sector or power-loom.

1.3.5. Access to Markets

In this section, the marketing activities of some of the handloom agencies are discussed based on a review of existing literature. This review seeks to highlight certain trends and processes that inform how handlooms work with markets. It also captures the role of market institutions. These studies provide two broad dimensions of current market practices of the handloom producers. The first lays out the different strategies used successfully for marketing craft textile in the new marketplace. The second stream of literature articulates for the need for a different production paradigm which has possibilities for equity and well-being of weavers.

An interesting feature of handloom market is, its heterogeneity made up of many segments that are characterised by its scale, scope, and features. Annapurna (2006) observes that, whether marketing through exhibitions or through retail outlets, firms that market handloom products on a large scale,
have to perform certain tasks. The first one is to design systems that link the distant market to the dispersed production mode. Secondly, the supply channels designed must convey information about the market to the producer. Finally, quality parameters have to be negotiated between producer and market, so that; the producers must understand what customers view as quality in the market. Given this context, two dominant marketing practices prevail in the market. First involves some of the institutions cater to the high end elite segment. The second involves the institutions serving large urban middle markets. These two market segments require different strategies in terms of sourcing of production, production cycles and standardization of products.

Considering the heterogeneity of the handloom market, an important strategy of marketing agencies, is to work with several producer groups spread out geographically (Puri 2006; Modak 2006; Kasturi et al. 2006). An interesting feature across these agencies is that, the primary production is not located within the firm, but in producer collectives. The system works on the commitment from the firm, to provide year round work to the producers at fair wage. In this production system, the spinners, dyers, printers, weavers are linked with each other through social and economic networks benefiting each other.

Another important feature of the marketing agencies is their positioning strategies. For example, Desi offers clothes plus advantage for its lower middle-class customers (Kasturi et al. 2006). Its stores are designed to convey a homely atmosphere within urban landscapes. Its strategy of specialising in the kurta and the saree has made it stand out in the market. Desi position itself in the niche market of people committed to social, economic and ecological issues. Urmul position itself as craft products and sells mostly through exhibitions sensitising the market and consumers about craft products. Urmul does this by adapting its artisans’ rural products to urban markets and building a loyal and socially responsible customer base. Dama follows differentiation strategy by supplying distinctively different fabrics, to many segments. Puri (2006) notes that, the core of their marketing strategy relies on transitioning from the niche of supplying only handloom buyers such as Fabindia to mainstream retail chains where handloom fabric competes with different fabrics. Modak (2006) illustrates the experience
of Fabindia in the marketing of handloom products, which works with mostly urban consumers who like natural fibers. The core of the marketing strategy of Fabindia is its brand building initiatives which position them as everyday handloom fabric with quality products available to the customer at an affordable cost. While Desi, Fabindia and Urmul operate in a niche market, the master weavers of Mangalagiri, the cooperative Angara sells handloom as a textile product, competing with cheaper products in the price sensitive, brand insensitive local market (Syamasundari et al. 2006; Dharmaraju 2006).

1.3.6. Support for Handloom Sector

This section examines the recent government policies and programmes for the support of handloom sector in India. At present, the government of India is implementing various plan schemes that are broadly categorized under i) supports for co-operatives and ii) cluster development (GOI 2012).

1.3.6.1 Supports for Co-operatives

In the post independence period, the government of India has vigorously involved in the co-operativilisation of the handloom sector through promotion and nurturing of weavers’ co-operative societies. An important measure under these initiatives was the creation of a network of support institutions consist of Office of Development Commissioners (Handloom), All India Handloom Development Board, Weavers’ Service Centres, Indian Institute of Handloom Technology, National Handloom Development Corporation, and several state level bodies including Federations of Co-operatives. These institutional interventions broadly focused on modernization, protection and welfare of the handloom weavers by providing support in terms of raw materials, designs, marketing, training and skill improvement (Mukund and Sundari 2001).

1.3.6.2 Support for Cluster Development

An important feature of policies of handloom development is the support to cluster development. The Government of India has introduced the Integrated Handloom Development Scheme (IHDS) during 2007-08, aimed at developing the handloom sector and providing welfare services to handloom weavers (GOI 2012). The programme involved group formation, skill training, and creation of work
place facilities and these are implemented by adopting a cluster development approach (UNIDO 2003). The activities focus on developing trust and social capital in the cluster and improving the capacity of various stakeholders. The cluster development programmes are implemented through a multi-level administrative system consisting of the Development Commissioner of Handloom at the central level, and implementing agencies at state and local levels (GOI 2012).

1.3.7 Position of Handloom Sector in Kerala as Compared to Handloom Sector in India
This section provides a comparison of Kerala’s handloom sector with respect to handloom sector in India. It analyses some of the key parameters consisting of quality of work participation, educational level of weavers, nature of engagement, trends in production and employment generation. This section largely draws data from the latest handloom survey (NCAER 2010).

1.3.7.1 Quality of work Participation
An important feature of the handloom sector in the country is the presence of a large number of young people in the handloom work. As per the latest national handloom survey, there are 42.35 lakh handloom workers in the country. Close to 90 per cent of them are in the age group of 18-59 years. While the engagement of under aged workers at the national level remains less than one-tenth of the total workers, this proportion is higher in states like Uttar Pradesh (15.8%), West Bengal (14.6%), Andhra Pradesh (13.9%), and Karnataka (13.9%). At the same time, the engagement of under aged weavers is only less than one percent in Kerala. Another important feature in the work participation in the handloom sector is the involvement of women. More than three-fourth (77 %) of the handloom workers are women, both at the national and state level (NCAER 2010).

Although handloom work is spread among different social groups in the country, there is a significant difference in participation of workers among different social groups. Both at the national and state level, Hindus dominate in handloom work. While at the national, Muslim constitutes 15 per cent of the total handloom worker households, their participation in handloom work is negligible in Kerala, despite their population constitute close to one-fourth of the state’s population. It’s important to note a significant portion of Christians in handloom work, both at national and state level. In fact handloom work is introduced in the country as part of the Missionary work in early 19th century. At the national
level, a significant portion of the handloom workers belong to OBCs (41%). Participation of STs and SCs constitute 22.1 per cent and 9.8 per cent respectively. In Kerala more than 85 per cent of the handloom workers are OBCs. The proportion of SC and STs constitute 4.5 per cent and 9.2 per cent respectively (NCAER 2010).

1.3.7.2 Education Level

Significant difference is also observed in the level of educational attainment of the handloom workers. While close to one-third of the workers at the national level, have never attended in schools, their proportion is only less than five per cent in Kerala. It is significant to note that, quite a large number of handloom workers in Kerala are educated up to primary and secondary level that is attributed to the high level of education attainment in the state. At the same time, it is found that, at national level, significant proportion workers are educated up to higher secondary and graduate level. While in Kerala, participation of workers with higher education is very less, indicating low preference among young people in the handloom work.

1.3.7.2 Nature of Engagement

Based on nature of engagement in the work, at all India level, quite a large number of handloom workers are either independent or working under master weavers. At the national level, around two-third of the handloom workers is independent. Close to one-third work under master weavers. Only close to one-tenth of the workers are in the co-operatives and private sector. While in Kerala, majority of the handloom workers, more than two-third, are associated with co-operatives. Only one-fifth of them are independent workers. A less proportion of them work under master weavers. There is significant difference in the nature of employment as well. At the national level, only two-third of the workers is employed full-time. Against this, more than 97 per cent of the handlooms workers in Kerala are employed full-time.

1.3.7.3 Trends in Production

Having examined the socio-economic condition of the workers at national and state level, this section examines the trends in production. At the national level, there are 27.73 million looms and majority of
them are in the household sector (96%). It is important to note the difference in distribution of looms at national level and in Kerala. While at national level, majority of the looms are in the household sector, the proportion of looms in household sector in Kerala is only 34 per cent. One of the characteristic features of handloom sector in Kerala is the presence of co-operatives. More than two-third of the looms (65%) in Kerala are within co-operatives. Another important difference is with regard to number of working looms. While 90 per cent of the looms at national level are working looms, the corresponding proportion of working looms in Kerala is only 67 per cent. Particularly, a large number of looms (41%) in the non-household sector in Kerala remain idle.

1.3.7.4 Employment Generation

Handloom sector in India creates approximately 75.37 million person days of work in a year. At the national level, a weaver household is employed 264 days in a year. There is significant difference between the number of days employed by a weaver and allied worker. On an average, a weaver is employed 183 days in a year. The allied worker is employed in 217 days. The contribution of per day employment by the handloom sector in Kerala is much higher compared to the national average. Handloom sector creates almost 3.5 million person days of employment in Kerala and the average number of days employed by a handloom worker household is much higher than the national average. Compared to a national average of 264 days in a year, a weaver household in Kerala is employed 296 days in a year. A weaver in Kerala is employed in 246 days compared to national average of 183 days. The average days employed by allied worker are marginally less. More than 93 per cent of the handloom workers reports that, they are employed in between 150-300 days in a year. The corresponding figure at national level is only 40 per cent.

1.4 MAIN OBJECTIVES OF THE STUDY

The aim of the study is to understand the process of integration of small-scale handloom enterprises into productive markets. Drawing insights from value chain approaches to small enterprise development (Kula et al. 2006), this study;

- analyses the inter-firm relations in the handloom value chain and explore how inter-firm
relationships facilitate or hinder integration of small-scale handloom enterprises into productive markets.

- describes the governance structure of the handloom value chain and the importance of inter-firm relationships on governance structure and competitiveness of the firms in the value chain.
- examines the nature and types of firm level upgrading in the handloom value chain and also the factors influencing firm level upgrading.

2 1.5. THE SETTINGS OF THE STUDY

1.5.1. Rationale for Choosing Handloom Sector

The context of this study is handloom sector. Considering the presence of handloom products in the global markets, handloom sector provides a suitable setting for the study of small producers in the global value chain. Handloom export from India is valued at Rs 22331 million in 2012-13 (GOI 2014). Handloom sector in India is characterised by small-scale producers operating from home and associated with co-operatives using hand operated looms. This sector has survived on the strength of the producer’s ability to produce market oriented products in small quantity and compete in the open market along with the mill sector. The production takes place mainly in rural areas, but unlike many other rural industries, the market is spread across the country and significant quantity of products reaches in the international market as well. Although the handloom products have a significant share in the export earnings, fewer studies have attempted to study how these producers are able to produce and market them successfully in the international markets.

The choice of the handlooms sector as a field of study is influenced by the importance of the sector in contribution to employment, income generation and also the national pride associated with handloom. In India, handlooms remain as a powerful symbol of national ideology linked to the domestic production of *khadi*, originally promoted by Mahatma Gandhi as part of freedom movement. As the handloom products are classified as merit goods, the sector continues to enjoy the support from the central and state governments through its textile policies and programmes.
A recent report by National Council of Applied Economic Research (2010) reveals that, handloom sector in India is the second largest in employment generation next to agriculture with nearly 27.83 lakh households engaged in weaving and allied activities. A majority of them are in weaving (83%). The sector generates nearly 7.3 billion person days of employment. A lion share of employment is in weaving, 5.1 billion person days. On an average a handloom worker is employed in 191 days in a year. A majority of the weavers, more than two-third of them (64 %) work full-time. The sector contributes to 15 per cent of the total cloth production in the country and significantly contributes to the export earning as well.

The handloom market in India is closely associated with its aesthetic value and national pride associated with the handloom products. Scholars agree that, both these sentiments have its influences in the development of the handloom sector. Mamidipudi and Gajala (2008) suggest that, treating handloom for its aesthetic value may help in positioning the product as a niche item. At the same time, the national pride associated with the sector could justify the investment in the sector.

Handloom production in India is also faced with the challenges of matching the mode of production with respect to the changing markets. These are attributed to the lack of integration of design, technology, credit and marketing within the control of producers. Scholars agree that there is a need for the integration of these activities within the handloom production system under the control of the producers or producer organizations so that, the benefits of value addition reach to the weavers (Mamidipudi and Gajala 2008). The central issue is building the capabilities of the producers and the producer’s organizations to take up much of value added activities in the production and marketing system. It is in this context that, the integration of small-scale handloom producers in to global market has been debated. The fundamental question is how to build the capacity of the weavers, so that they will be integrated to the global markets through a process accountable to the weavers and providing them sustainable living opportunities.

1.5.2. Rationale for Choosing Handloom Sector in Kerala
Handloom sector in Kerala is characterised by the co-existence of both formal and informal production system ranging from centralised production and marketing system to household weaving units. The organized sector consists of co-operatives and the unorganised sector comprises weavers working from their homes and associated with master weavers. Kannur handloom cluster has been chosen for the unit of study because, the small-scale handloom producers from this cluster are integrated to the value chains of international store chains like Walmart, Tesco, Marks and Spencers, Ikea and international distributors like the Crate and Barrel, the Malabar, etc. through direct export and subcontracting relationship with the merchant exporters within the district. This provides a suitable context for examining the process of integration of small-scale handloom producers into the global markets.

1.6. Outline of the Chapters

This thesis is organised in six chapters. Chapter 1 deals with introduction to the study. The Chapter 2 provides review of literature and major research gaps. Chapter 3 deals with the research methodology and design of the study. Chapter 4 deals with the data and analysis. Chapter 5 provides discussion and Chapter 6 deals with conclusion based on the major findings of the study followed by limitations of the study and future directions for research.