CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter provides the review of literature. As the review on handloom sector has given in the Chapter 1, this chapter mainly focuses on the literature on value chains. The chapter is organised under three broad headings: i) theoretical perspectives in value chains, ii) value chain approach to small enterprise development and iii) the process of integration of firms into productive markets. This is followed by a discussion on key findings from the literature review. The chapter concludes with a discussion on major research gaps.

2.2 Theoretical Perspectives in Value Chains

2.2.1 Porter’s Value Chain

The concept of value chain has received widespread attention in management literature with the publication of the book *Competitive Advantage* by Michael Porter in 1985. Porter (1985) used the concept of value chain to include all of the inter-linked activities required to design and delivery of a product or service. According to Porter, a firm’s competitive advantage depends on how they perform these strategically important activities in a cost effective manner. Porter explains that, a firm's value chain is embedded in a larger stream of activities called ‘value system’ comprising ‘suppliers value chain’, ‘buyer's value chain’ and ‘channel value chain’. According to Porter, firm's value chain comprises of nine generic [value] activities that are linked within the value chain. It is through the linkages and relations to these activities, value has been created. Competitive advantage is derived from linkages among activities in two ways: optimisation and co-ordination.
Porter (1990) presents a useful model for understanding competitiveness in a better way. Porter identified four determinants that are necessary to create and sustain competitiveness of firms. These are:

*Factor conditions:* The factor condition includes human resources, physical resources, knowledge resources, capital resources and infrastructure.

*Demand conditions:* Porter stressed the importance of the home market: the home market gives local firms a clearer or earlier picture of buyer needs than foreign rivals can have (p.86).

*Co-localised and support industries:* This gives the advantages of cheap inputs, better co-ordination between steps in the value chain, and access to innovation and upgrading (p.101).

*Firm strategy, structure and rivalry:* Nations or districts can have advantages in having clearer goals, being better organised and by being more competitive due to competition in the home market (p.107).

The author presents these four determinants in the form of a diamond, a mutually reinforcing system, signifying the advantage in one determinant can create or enhance advantages in others. Porter had found that, the existence of a large domestic market and a large number of firms with intense competitive rivalry among them are most critical for their success. This is because, resulting competition itself leads to creation of supporting industries and services which further enhances the innovation and competitive advantage of the industry. An important contribution of this model is the paradigm shift from the comparative advantage to competitive advantage. It questions the traditional wisdom about focusing on those industries in which the country has a cost advantage. Porter found that, in many examples he studied, the traditional factor conditions (raw materials) were in fact adverse, since basic raw materials were often imported. Other factors such as skilled labour, technology, specialised infrastructure, design and marketing skills were created by firms either individually or through trade associations, under pressure not to fall behind.

### 2.2.2 Global Value Chains
Global Value Chain (GVC) analysis is closely associated with the emergence of globalisation. An important line of inquiry in GVC analysis is the functional integration of internationally dispersed production chains. Scholars agree that, the value chain perspective is an effective means of conceptualising this process of integration (Gereffi 1994; Gereffi et al. 2001). In order to analyse the process of market integration Gereffi (1994) have developed a framework with four key elements of global value chain comprising: input-output structure, geography, governance structure and institutions.

As pointed out by Gereffi (1994), one of the pivotal concerns within global value chain research has been to understand how the chains/networks are co-ordinated across space and how economic value is distributed among various firms. Central to this analytical method is governance, the process by which the lead firm seeks to co-ordinate production through backward or forward linkages. Gereffi et al. (2005) found, three characteristic of the value chain, as most important for determining the governance structure of a value chain. These include: complexity of transactions, codifiability of information and the capability of suppliers. Based on these characteristics, (Gereffi et al. 2005) have developed a fivefold typology of governance pattern consisting of markets, hierarchies, modular, relational, and captive. The form of governance can change as an industry evolves and matures. Also, the governance patterns within an industry can vary from one stage or level of the chain to another. Using on the above mentioned analytical frame work, recent researches in global value chains have contributed to understanding of the governance structure in the value chains of textiles and clothing (Gereffi 1999), fresh fruits and vegetables (Dolan et al. 1999), commodities such as tea and coffee, and wooden furniture (Kaplinsky and Readman 2000, 2001; Kaplinsky et al. 2002).

Building on the original four key dimensions (geography, institutions, input-output structure, and governance), an additional dimension called, upgrading has been added to the understanding of the global value chains (Gereffi 1999). Upgrading is referred to the capacity of a firm to innovate to increase the value added of its products and processes (Kaplinsky and Readman 2001; Humphrey and Schmitz 2002). Gereffi et al. (2001) found that, a firm’s upgrading happens as a result of its insertion

2.3. Value Chain Approach to Small Enterprise Development

Value chain approach is fast emerging as a tool for small enterprise development (Jones 2011). The focus of interventions is on creating an inclusive value chain system. Inclusive business models or chains are those who do not leave behind small-holders (Harper 2009). Similar view is expressed by Pastakia and Oza (2011), who consider inclusive value chain, as a market based arrangement that provides opportunity to generate livelihoods for the poor through creating value by producing and delivery of quality products and services to the end user/customer. According to Harper (2009), 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.

Value chain development initiatives focus on strengthening market relationships. Kula et al (2006) provides an analytical framework for value chain design and intervention. The process starts with selection of industries with potential for competitiveness and systematic analysis of key stakeholders in the value chain to understand their functions and activities. The analysis aims at understanding the opportunities and constraints in the value chain, with reference to BDS provision, support services and business enabling environment. This is followed by development of strategy and action plan to improve the competitiveness of the sector.

Value chain approach has emerged from the confluence of wide array of development fields including cluster development, subsector analysis, business development services and market development/systems approach. The following sections provide a description of these approaches and key learnings that lead to the evolution of value chain approach.

2.3.1 Cluster Development

During 1990s, the success of industrial districts\textsuperscript{11}/clusters around the world, have stimulated cluster development approach to small enterprise development. An important focus of research on industrial districts and clusters around the world constituted the role of local or regional supply chains and

\textsuperscript{11}

Recent researches show that, clusters play an important role in integration of small producers into global value chain (Bair and Gereffi 2001; Rabellotti 2004; Nadvi and Halder 2005; Ruzzier et al. 2006; Wright et al. 2007; Kalantaridis and Vassilev 2010). An important argument in the cluster literature is that, insertion of clusters in global value chains improves the competitiveness of the firms in the cluster (Schmitz and Nadvi 1999; Humphrey and Schmitz 2000). Drawing from the experience of industrial clusters, these studies argue that, clustering and networking help the small firms to compete in distant markets and to grow from small to medium and sometimes even large size. The authors draw example of several industrial clusters for supporting the argument and conclude that, industrial clusters of small enterprises provide advantages of collective efficiency. A number of cases are outlined, where clusters and networks have been promoted successfully, and several mechanism have been identified that build up customer orientation and competitiveness.

2.3.2 Subsector Development

Along with the cluster development, another field of study, called subsector analysis has largely contributed to the development of value chain approach. Subsector approach incorporates a system perspective for analysis of economic activities within a subsector. Originally applied in agriculture commodity, it emphasizes interdependences of economic units, particularly those involved in production and distribution process. Subsector is defined in different ways. For example, Shaffer (1973) defines it, as the vertical set of production and distribution activities involved in the production of a specific commodity. Marion (1986) views subsector as an interdependent array of organizations,
resources, laws, and institutions involved in producing, processing and distributing an agricultural commodity. Fundamentally, the subsector analysis was used to understand the vertical co-ordination involving production to the final consumption of a product. Key concepts embodied in both of these definitions include the idea that, a subsector is a vertical slice by commodity, from input supply to consumer; and that, it involves not only organisations or firms, but all the ways (rules, law, business practices, etc.) that help get those organisations or firms to operate in a coordinated way.

Since 1990s, the subsector approach has increasingly applied in small enterprise promotion and research. Applied in the context of small enterprise development field, a subsector constitutes a network of firms that supply raw materials, transform them and distribute finished goods to a particular consumer market (Haggblade and Gasmer 1991). As a macro-economic tool for small enterprise support, the subsector analysis is built on four primary concepts: a vertical perspective, competition, co-ordination and leverage (Gasmer 1992). It examines how policies and regulations influence market access and interaction, and how insiders regulate product flows within the system.

The methodologies for subsector analysis allow practitioners to determine strategic interventions which have the potential to generate a significant impact on a chosen subsector, for example in terms of new jobs for poor people. Subsector analysis recognises that, small enterprises operate within a larger production and distribution system. Thus understanding the opportunities and constraints facing small firms and developing sensible policies for their promotion requires looking not only at the small enterprises but also, at the larger firms that compete with them, supply with them inputs, and market their products. Understanding of these inter-firm relationships is core to the subsector analysis and intervention.

Sen and Mahajan (1993) describe the field application of subsector approach in tasar silk in Bihar. The implementing agency Professional Assistance for Development Action (PRADAN) helped the small producers with subsidised plantations of trees, establishment of a central grainage and two village level grainages run by rearers, distribution of disease-free laying eggs to the rearers and women were trained
on spinning and weaving. PRADAN also assisted them in marketing of products. At the policy level PRADAN lobbied for greater attention for tasar sector and raising the funds for tasar plantation.

2.3.3 Business Development Services

Following the subsector analysis, the focus in small enterprise development has shifted towards the provision of non-financial services. Drawing from the experience of microfinance institutions in extending non-financial services to small enterprises in a cost effective manner along with financial assistance, a nuanced approach to provision of non-financial services to small enterprises has evolved during late 1990s. The new approach, termed as Business Development Services (BDS) provision, is concerned with facilitating BDS for small enterprises (McVay and Miehlbrecht 2004).

Rooted in the experience of donors and practitioners (Donor Committee of Enterprise Development 2001), the initial BDS facilitation focused on private provision of business services. But it failed to bring synergy with other BDS providers like government agencies, chambers of commerce, industry associations and NGOs. The traditional approach to BDS provision mainly confined to subsidies to small enterprises (SEs), so that, they could avail subsidised training and marketing services and other services. The traditional approaches were constrained by poor quality of services, inconsistency in delivery, lack of specialised services, and lack of ability to identify the real need of SEs. It has only limited outreach and impact on enterprise development (McVay and Miehlbrecht 2004). This has lead to broaden the BDS to include a range of services including: infrastructure, product or technology development, market access, management and organisation, policy advocacy, and alternative finance for weak BDS markets (Jones 2011).

Gaining experience from the donors and practitioners, the current thinking on BDS involves Market Development approach to BDS design and delivery. The current BDS services have proved that, the small enterprises could purchase services; provided these services are appropriately designed and delivered (McVay and Miehlbradt 2001).

2.3.4 Market Development/Systems Approaches
The market development approach has emerged as a blend of strategies used in subsector analysis and business development services. Clarifying the importance of market development approach, Mehlbradt and McVay (2005) wrote that:

“Increasingly, international development initiatives focused on economic growth and/or poverty alleviation is guiding markets toward working better for the poor. These initiatives are pushing for significant changes in the business enabling environment to open markets for private-sector growth and small enterprise (SE) participation. They are enhancing the competitiveness of developing country economies by linking small-scale producers with supply chains that sell to global markets. They are enabling small-scale producers to reap more rewards from global market participation by finding commercial solutions to the barriers that exclude small-scale producers from the benefits of higher value markets. And they are promoting program and policy shifts that help the poor improve health, sanitation, education, and other areas of their lives by supporting local market systems in which small enterprises play a critical delivery role” (Mehlbradt and McVay, 2005:1).

Kula et al. (2006) writes that, this approach continues to be favoured by donors and other enterprise promotion agencies with an objective of pro-poor economic development. As the BDS market development gained momentum, it was realised that, private provision of business services was not reaching in some areas, especially where the market system are weak. The systems approach recognises greater role for government agencies, industry and chambers of commerce, trade associations and civil society groups to play in promoting sustainable enterprises. As market development approach has become prevalent, the facilitating agencies, advocating market development approach, argue for selection of industries with growth potential in which small enterprises could add to overall competitiveness.

Kula et al. (2006) refined this blended strategy incorporating new emphasis on industry competitiveness, providing an analytical framework called value chain analysis. It provided a diagnostic framework for analysing constraints and opportunities with the goal of improving the competitiveness of a value chain. Value chain approach emphasises on industry/sector competitiveness. It is argued that, a firm can improve the competitiveness by increasing the efficiency of firm’s internal operation, developing inter-firm linkages and through adopting upgrading practices along the value chain (Kaplinsky 2000). Kula et al. (2006) reports that, a transparent and trust based inter-firm relations are crucial for an industry’s ability to increase value through increased efficiencies, product differentiation strategies and the exploitation of new demand.
2.4 Value Chain Intervention Models

Several models of market integration have been evolved over the years. Having examined the emergence of value chain approach to small enterprise development, this section elaborates on key learning and insights from various approaches in value chain interventions aimed at facilitating integration of small producers into productive markets.

2.4.1. Fully Integrated Value Chains

One of the earliest examples of integrated models in value chain development is that of Triple Trust Organisation (TTO) in South Africa that provides integrated\textsuperscript{12} services to the small entrepreneurs (Thomas 1990). Streeten (1991) and Harper (2009), articulate the need for a greater integration of informal sector enterprises with formal large scale enterprises in agriculture/agri-manufacturing firms. Illustrating the symbiosis of formal and informal sector in the case of National Diary Development Board in India, Streeten argues for similar models in modern manufacturing sector as well. Streeten identifies the business enabling environment, as a critical challenge for the successful integration of informal enterprises into effective market relationships and recommend changes in government policy, innovation, institutions, regulation and control for creating supportive environment. The integrated service models generally involve a hybrid form. Miller and Jones (2010) illustrate the case of a vertically integrated value chain model in which, the super market works closely with importers or domestic wholesalers passing information and services down the chain to producers.

2.4.2 Promotion of Producer’s Organisations

A number of initiatives in integrating small producers into value chain are based on producers organised into small groups, associations or co-operatives. In India, Professional Assistance for Development Action (PRADAN) uses the co-operative models for facilitating the home-based broiler poultry producers into market (Kumar 2009). Through this model, the facilitating agency provides marketing and production support to the small farmers to adapt the complex broiler production technology to their local conditions. One of the successful examples of integrating small producers to the market through producers’ organisation involves the case of value chain development of honey in

\textsuperscript{12}
India (Kumar 2009b). Under this model, the facilitating agency, EDA has helped the farmers to create viable market for the small scale honey producers by collaborating with Timul and Dabur. Similarly, in an effort to create a viable market for small and marginal tribal coffee farmers, Naandi Foundation is working with the tribal coffee farmers in Arakku, linking them with fair-trade coffee value chain by organizing them into co-operatives and providing support services (Rao 2009).

2.4.3. Lead Firm Facilitated

It is widely recognised that, lead firms can contribute to sustainable development of value chains through provision of various input services and providing linkage to terminal markets. Under the facilitated model, large companies are partnering with each other or with other stakeholders to support business linkages for small enterprise development (Jenkins et al. 2007). Indian Tobacco Company (ITC) Ltd is one among them working with a number of small scale producers in agarbati value chain (Sharma 2009). Similarly Kohinoor Foods Limited (KFL) is facilitating organic production of Basmati rice in Utarkhand (Singh 2009). Through this intervention KFL has helped to break the traditional mandi-adti-rice mill chain and dealing directly with the farmer’s through their federations. BioRe is assisting the small-scale organic cotton producers in Nimar valley in Madhya Pradesh to integrate them into international textile value chain (Baruah 2009). These case studies invariably show that, by creating necessary infrastructure and expertise, the smallest marginal producers can also get into the modern value chain.

2.4.4. Contract Growing/Farming

Contract farming is increasingly used as an instrument for integrating small producers into modern value chains (Singh 2009). Contract farming is in fact one of the most common buyer-driven value chain model and is mostly applied in agriculture, agro-processing involving large supermarkets and large scale producers. Basix and Spencers use contract farming (Dhananjaya and Rao 2009; Singh 2009). Basix works with small-scale potato farmers of Jharkand through contract farming and linking them to Pepsico Holdings India. Spencers uses the concept of ‘contract growing’ where a limited number of farmers grows vegetable, based on the quality specifications of the company. Under the
contract growing arrangement, the farmers are not compelled to sell the products to the company. At the same time, Spencer’s procurement system provides opportunities for a large number of small vegetable producers to participate in their supply chain. The farmers benefit from an assured market, lower transport cost, lower labour cost, timely payment and fair weight. But there is no price assurance to the farmers.

2.4.5 Donor Facilitated

A large number of value chain initiatives are donor facilitated. Some agencies facilitate relationship between producers and financial institutions and others enter into contractual arrangements for providing guarantees and provision of direct technical services (Kimathi et al. 2007; Campagne 2010). In Malawi, TechnoServe works with seed industry value chain by using various business models to enhance smallholder incomes (Kimathi et al. 2007). Similarly, in western Kenya, DrumNet brings together farmers, input suppliers, buyers and banks through a fee-based facilitator-hub (Campagne 2010). As facilitator, DrumNet provides the organisation and capacity building of farmers’ associations as well as the relationship and internet linkages between various parties involved in the value chain. In India, the USAID had supported ITC Ltd for the development of the value chain of small holder vegetable producers (Mishra 2009). The objective of the project was to provide cost effective extension services to the small holder vegetable producers and link them with retail markets.

Other prominent donor facilitated models are International Development Enterprises (IDE) (Bista 2004), the USAID- Kenya BDS program (Emerging Markets Group 2004) and Mennonite Economic Development Associates (MEDA) (Jones and Snelgrove 2006). International Development Enterprises (IDE) works with farmers in remote rural areas in Nepal and India for developing commercial markets for agricultural inputs and micro irrigation and assists them to improve their living condition by producing commercially. By focusing on developing, The USAID supported Kenya-BDS program is helping the small-scale horticultural farmers by linking them with export markets and building the capacity of BDS providers. Mennonite Economic Development Associates (MEDA) have helped the home-based rural women embroiders in Pakistan by creating a network of female intermediaries and
linking the rural artisans into markets through provision of product and market information on a regular basis (Jones and Snelgrove 2006).

2.5. **Value Chains and the Process of Market Integration**

Having examined emergence of value chain approaches to small enterprise development and value chain intervention models; this section describes the process of integration of small firms into markets. The review of literature identifies three key elements of value chain: inter-firm relations, governance structure and upgrading practices, which are critical for facilitating the process of market integration of small firms.

2.5.1 **Inter-firm Relations**

The value chain approach emphasises on strengthening of relationships between firms (Meihlbradt and McVay 2005). Powel (1990) and Ring and Van de Ven (1992) report that, inter-firm relations constitute a form of economic co-ordination that involve networks of firms including franchising, joint ventures and sub contracting relations. Ramya and Khayum(2002), Ramya and Smith(2003) cite several examples of inter-firm co-operative arrangements that involve: joint ventures, licensing relationships, co-marketing programmes etc, that facilitate the knowledge and information sharing among firms.

The interest in link between inter-firm relations and firm’s performance has been stimulated by recent works in economic sociology (Granovetter 1985; Uzzi 1997). Granovetter (1985) has introduced the concept of embeddedness\(^{13}\) explaining how social relations affect economic behavior. The link between inter-firm relations and firm’s performance is further established in the cluster literature (Brusco 1990) and global value chain literature (Humphrey and Schmitz 2002; 2004; Gereffi et al. 2005). Recent researches confirm that, a firm’s performance is a result of its own resources and skills as well as the relations with other firms (Ramya and Khayum 2002). Relations help the firms to acces resources and create value for its customers.

Inter-firm relationship have been examined from the perspective of inter-firm dependencies, trust in relations, power in relations and co-operative/competitive dimensions. According to Dyer and Singh (1998), innovative knowledge which spans firm’s boundaries is embedded in inter-firm relations. This

\(^{13}\)
knowledge embeddedness means that, in order to share, transform and integrate relevant knowledge for innovation purposes, firms need to adopt and manage different types and degrees of inter-firm relationships.


Several empirical studies have examined the link between inter-firm relationships and firm performance. Meyer-Stamer (1998) found strong inter-firm co-operation has helped the firms in the ceramics and knitwear clusters in Brazil to overcome a major crisis in the early 1990s. Scott (1994) observes similar inter-firm co-ordination in jewellary cluster in Los Angles and Bangkok. He attributes greater dynamism of the cluster to the ‘collective activism’ that is reflected in joint action for resource mobilisation, infrastructure creation, information sharing etc.

Strengthening of inter-firm relations is paramount both in clusters and value chains. While cluster literature emphasised on local linkages, mainly horizontal relations between firms in the cluster, the value chain literature turned its focus into external linkages, mainly vertical relationship (Dun and Villeda 2008). Humphrey and Schmidt (2002) developed four typologies of inter-firm relations: market relations, network relations, hierarchical and quasi hierarchical relations. These relations have implications for flow of information and power relations in the chain: the markets relations involve less flow of information between the actors, whereas, hierarchical and network relations involve frequent exchange of information between the chain participants.

Ramya and Smith (2003) attribute four types of benefits from inter-firm relationships. These involve: economies of scale or learning, access to knowledge or abilities, reducing risks and shaping competitiveness. A study by Lusby and Derks (2006) has revealed the importance of inter-firm co-operation in improving the competitiveness of the Shea Kernel value chain in Mali. Nagarajan, et al. (2008) found that, micro and small enterprises can be integrated into broader value chains through
outsourcing relations with medium and large enterprises. Bloom et al. (2007) in their study indicate the importance of market information, inter-firm communication for the participation of micro and small enterprises in the textile handicrafts and high-value horticulture value chains in Guatemala.

2. 5.1.1 Role of Trust in Inter-firm Relations

Inter-firm relations are grounded in trust and reciprocity. A growing body of scholarships highlights the importance of trust in building inter-firm relationships (Ottati 1994, 1996; Sako 1992; Ring and Van de Ven 1992, 1994; Casson 1995; Lane and Bachman 1998 Anderson and Jack 2002; Nooteboom 1999, 2002, 2004; Mistri 2003; Bathelt et al. 2004, Lin 2001, Fukuyama 1995; Putnam 1995; Coleman 1998; Harriss 2001; Reji 2009). A general view among the scholars is that, trust and co-operation are influenced by systems of rules regulating social behaviours and it is developed through continuous interactions. In this context, personal rapport and intimacy plays an important role. As Gundlach and Cannon (2010) points out, trust is one of the characteristics that explain the strength of relationship between two parties in an exchange. It is believed that, the level of trust between the parties can be understood in a better way by analysing the nature of business relations and interaction between them. Goel and Karri (2006) points out that, trust may also emanate from the previous experience of the business owner with their trading parties. Trust is built over the long years of engagement of two business parties supported with reciprocity [from the buyer] in terms of maintaining prompt payment as a value return to the product or service received from the supplier.

Recent researches, confirm the importance of trust in business performance. Scholars note that, business transactions with two parties are subject to several uncertainties and risks: associated payment failure, commitment to quality of products, failure to timely delivery of the products, servicing of credit and possible replacement of the damage etc. Most of these issues are addressed with constant human relations, in which, trust plays an important role (Doney and Cannon 1997).

Burchell and Wilkinson (1997) and Lane and Bachmann (1996) found that, trust in relations helps to enhance co-operation and reducing uncertainty and risk in transactions. Mollering (2002) have examined the impact of trustworthiness in inter-firm relations in UK printing industry. This study
found that, buyers use market mechanism (price) with more trustworthy suppliers. Arrighetti et al. (1997) have examined the influence of contractual environment on inter-firm relations. This study concludes that, firms adopt various forms of contractual relationships and strategies in dealing with their suppliers and customers in different institutional contexts.

According to Bloom et al. (2007), a very cordial horizontal and vertical relationship is important in building trust and sharing of market information along the chain. Gundlach and Cannon (2010) found that, exchange of quality information is possible only under circumstances, where perceived trust among the parties is higher.

2.5.1.2 Inter-firm Co-operation and Collective Efficiency

Inter-organisational relationships have been an important topic in the field of strategy and entrepreneurship research. Scholars in this field have examined, how these relations relate to venture development (Rosenkopt and Schilling 2008), opportunity recognition (McMullen and Shepheard 2006), access to resources and information (Gulati et al. 2000), and capabilities (Rothaermel 2001). One of the major outcomes of these researches is development of a theoretical framework, alternate to the resource based view, which states that, the possession of distinctive resources is critical for a firm’s competitive advantages (Barney 1991; Peteraf 1993; Barney et al. 1994; Miller and Shamsie 1996).

One way by which small enterprise can overcome this constraint is joint effort (Schimidt 1995b). This possibility of joint efforts results from various forms of inter-firm dependencies, which make the performance of a firm dependent on the performance of other firms in the same industry or market domain. These inter-firm co-ordination further lead to collective efficiencies (Schimidt 1999a; Gulati and Singh 1998).

Small enterprise development approaches, especially during 1990s has largely focused on fostering collective efficiency. Humphrey and Schmitz (1996) have developed a framework, called Triple C-Approach for fostering clustering and networks, particularly in the case of small enterprises. Researches in clusters have established that, successful enterprises in clusters compete on the basis of
collective efficiency. Mesquita and Dagnino (2010) found increasing productivity along the vertical chains and joint production innovation and access to collective resources in horizontal chains, when firms interact in the clusters. Recent researches in clusters confirm that, the collective efficiencies serve as competitive advantages for SMEs to access global markets. It is well established that, collective efficiency derived from joint action and external economies of scale help small enterprises to overcome growth constraints and compete in distant markets (Schmitz 1995a, 1995b, 1997, 1998; Rabellotti 1997).

A common finding across the cluster studies, relates to increased performance of the firms as a result of participation in cluster activities. Inter-firm co-operation is a central feature of successful industrial clusters (Schmitz and Nadvi 1999). Another common observation in the studies on industrial clusters from Mexico, Italy and Brazil (Rabellotti 1997; Rabellotti and Schmitz 1997), India (Knorringa 1996) and elsewhere is the increased vertical co-operation, that have significant effect on the competitiveness of the firms in the cluster (Rabellotti 1997; Nadvi 1999).

As evidenced from several studies, some of the important benefits of the clustering include market access (Schmitz 1995a) and access to information and knowledge (Rabellotti 1997; Nadvi 1999; Pietrobelli et al. 2006). Knorringa (1996), in her study of Agra cluster has found improved performance among the firms, that are operating in most demanding channels, as a result of improved co-operation among the various channel partners. Rabellotti (1997) also made similar observation, based on his study of Mexican cluster, in which the co-operation with suppliers was markedly closer in export channel. Kennedy (1999) underlines the importance of local joint action in the performance of the firms in the cluster. It was found that, joint action in effluent treatment has significantly improved the performance and process upgrading in the cluster. Similarly, Miramontes (2006) has reported intense vertical co-operation among suppliers and producers in the footwear cluster of Chipilo. Rabellotti et al. (2006) attribute this increased cooperation between producers and suppliers as local response to an external challenge.

2. 5. 2. Chain Governance
Governance is central to the analysis of the vertical relations in the chain. It implies the co-ordination of activities along the chain. The vertical co-ordination among various actors in the chain and its implication for firm’s competitiveness has attracted much scholarly attention. Governance is understood as the co-ordination of activities and control of information and resources along a chain (Gereffi et al. 2001; 2005; Humphrey and Schmitz 2002, 2004, 2008).

The debate about governance is rooted in transaction cost theory (Williamson 1975, 1985). According to Williamson (1985), transaction between business units in a value chain may be organised into various forms governance structures involving: market, vertically integrated (hierarchical) and hybrid governance mechanisms. A central argument in transaction cost theory is that, the governance mechanism is influenced by transaction costs and asset specificity. As such, a governance mechanism with lowest transaction cost will be the preferred mechanism. Scholars like, Powel (1990) and Gereffi et al. (2005) have drawn insights from the transaction cost theory, to provide a theory of network governance. This network form of governance involves varying degree of ‘explicit coordination’ between arm-length market transactions and vertical integration. This variation leads to five distinct kinds of governance pattern consisting of markets, hierarchies, modular, relational, and captive (Gereffi et al. 2005).

Governance within a chain implies that, some firms in the chain set and enforce parameters that others in the chain follow. These influences can be used to define the products by specifying the process and quality standards to be used. Scholars agree that, from a governance perspective, value chains can be producer driven or buyer driven (Gereffi 1994, 1999). A general understanding among the scholars is that, a particular type of governance is necessitated, when the suppliers lack in technical compliances and market knowledge. The form of governance can change as an industry evolves and matures. Similarly governance patterns within an industry can vary leading to multiple governance structures within a chain (Dolan and Humphrey 2004).

One of the primary focuses of analysis of governance in value chain is to understand the ‘power’ in the chain. The notion of ‘power’ in the value chain is understood as the ability of the lead firm to control
the decisions and resource allocation of other parties along the chain (Dickens et al. 2001; Henderson et al. 2002). A general view is that, most powerful actors drive the networks (Dickens et al. 2001). In the value chain, the power is exercised by the lead firms to control the flow of resources and resources needed in the chain and decision about entry and exit from the chain; monitoring of the suppliers and providing technical support in order to enable them to achieve the required performance.

Governance influences the competitiveness of the firms. Scholars from both innovation science and regional studies agree that, market dynamics alone is insufficient to achieve competitiveness. The governance structures are required to transmit information about parameters and enforcement of compliance along the chain. An understanding of the governance relations in the global value chain is crucial in understanding of the competitive strategies of the global buyers. It is widely recognized that, power relations among the firms in the value chain influences firm’s competitiveness and upgrading practices (Johnston and Meyer 2007). Based on the comparative case studies in the Italian Furniture industry, Marchi et al. (2013) shows that, how lead firms implement hands on governing mechanism to improve the environmental performance of their value chain partners. They identify two governing approaches, standard-driven and mentoring-driven to the upgrading of value chains.

2. 5. 3. Upgrading

The concept of upgrading is widely applied in explaining competitiveness of firms as a result of integration into global value chain (Porter 1990; Kaplinsky 2000). Different scholars have used the concept in different contexts. Upgrading is generally, understood as innovation that, increases value added (Kaplinsky 2000). Humphrey and Schmitz (2000) introduced four typologies of upgrading: process, product, functional and inter-chain. Upgrading is featured, both in cluster and value chain literature.\textsuperscript{18} Using the concept of collective efficiency (Schmitz 1995), Pietrobelli and Rabellotti (2006) found varying degrees of efficiency attained in the cluster across sectoral groups. Higher level of collective efficiency is found in natural resource based and special service clusters; in contrast collective efficiency was lower in complex product industries. The authors attribute several factors

\textsuperscript{18}
including circulation of information, vertical and horizontal joint actions for the increased product upgrading in traditional manufacturing industry. Knorringa (1996, 1999) attributes the failure to upgrade in cluster, directly to low trust and minimal information exchange between producer and buyers. At the same time, findings from Brazil and Pakistan suggest that, close relationship with buyers were important for upgrading, both products and processes (Schimitz 1995b; Nadvi 1999).

Value chain researchers take a very different approach in explaining upgrading practices in the chain. They argue that, upgrading is a result of external linkages, as opposed to local linkages as in the clusters (Gereffi and Korzeneiwics 1994). An important issue examined in value chain literature relates to, how has insertion of firms in global value chains enhance or undermine upgrading strategies (Pietrobelli and Rabellotti 2006). The global value chain scholars consider the importance of buyers in transferring the knowledge and information along the chain. Scholars agree that, firms with increased cooperation have better chances of improving their performance. These studies also reveal that, in response to upgrading challenges, the local buyers and external buyers work more closely, addressing each other’s issues. Scholars agree that, value chain participation provides information on the needs of global markets and the ways of gaining access to these markets. The studies using value chain framework distinguish different types of governance and upgrading typologies and shows that, certain types of governance favour some form of upgrading but not all. For example, operating in quasi-hierarchical global chains helps local producers to get on rapid product and process upgrading (Pietrobelli and Rabellotti 2006); but makes it difficult to progress into design and marketing function of the chain (Bazan and Navas-Alman 2004). This is explained by the buyer’s power in quasi-hierarchical chain to influence the production activities along the chain. Studies show that, functional upgrading readily occurs in market based value chains (Rabellotti 1999; Bazan and Navas-Alman 2004).

Recent studies on micro and small enterprise value chains confirm that, firm-level upgrading is a key component of inclusive development strategy for increasing the participation, contribution, and benefits of small enterprise in value chains (Ernst 2004; Kula et al. 2005; Dunn et al. 2006; Lusby and
Derks 2006; Bloom et al. 2007). Authors conclude that, upgrading create opportunities for small enterprises, when lead firms begin to specialise away from production. There are several factors are associated with enterprise innovation and upgrading. It is found that, upgrading is facilitated by encouraging strong vertical linkages to buyers, fostering effective horizontal relationships among the producers and by improving producers’ access to information about costs and benefits throughout the value chain (Bloom et al. 2007; Dolan et al. 1999). Recent study by Ponte et al. (2014) show that, chain governance, types of value chain drivers and the quality of domestic regulation as main factors for upgrading. Bolwig and Gibbon (2009) based on their study of Ugandan coffee producers report that, the assurance of being linked to a stable and reliable market motivates the producers to invest in modern coffee processing. Millard (2005) illustrates the role of market leaders in linking coffee producers into higher value markets and in driving firm-level upgrading in Mexico’s coffee value chain. It was found that, the global buyer’s sourcing of a product with attributes of place of origin and method of production has changed the power dynamics between the buyers and the small producers in the value chain that are favourable to the small farmers and helping them to gain larger benefits than early.

Recent researches also show that, upgrading is closely associated with the technological change. The small-scale firms, especially in the traditional crafts employ traditional technology. According to Pillai (200), the traditional small-scale industries remain technologically backward and lack competitive strength. Porter (1990) stresses the role of local interactions in the process of technology change. Bala Subrahmanya et al. (2002) found that, the vertical linkage in the clusters creates technological interdependence in the production process. This technological interdependence begins with the flow of goods and knowledge between a seller and a buyer, or a producer and a user. These dyadic user-producer interactions are embedded in a network of actors engaged in producing a good at different stages of the production process. This network of vertically-linked actors forms a production chain.

2.6 Discussion
The review of recent literature in small enterprise development reveals that, this field is undergoing tremendous changes over the years and is emerging towards a market development paradigm. The traditional approaches focused on provision of subsidised credits and inputs and formed part of the policies for promoting small enterprises, especially in less developed countries. However, these approaches have largely failed to provide its intended impact. The failure of the traditional approaches triggered the thinking on evolving sustainable approaches for small enterprise development, the result of which was evolution of a new approach called cluster development approach. Supported by the evidences on the studies on industrial clusters across the world, this approach was perceived having potential to bring collective efficiency in the clusters through joint and collective action. Supported by United Nations Industrial Development Organisation (UNIDO), the cluster development has become one of the dominant approaches in small enterprise development in less developed countries during 1990s.

Rooted in powerful externalities along with joint and collective actions, recent researches across the world have shown that, clusters facilitate competitiveness of the firms in the cluster. However, the cluster development approaches have been criticised on several grounds. First, its focus mainly of local sources of competitiveness derived from within cluster horizontal and vertical relations. Second, it neglects the importance of external linkages. Scholars argue that, external linkages assumes greater role in the context of globalization (Pietrobelli and Rabellotti 2006).

Subsector approach has become an intervention strategy for small enterprise development, mostly preferred by international development agencies and donors that support small enterprises. Subsector analysis is grounded on the reality that, small enterprises operate within a larger production and distribution system and the methodologies for subsector analysis allow practitioners to determine strategic interventions which have the potential to generate a significant impact on a chosen subsector. Thus, by understanding the opportunities and constraints facing small firms and developing sensible policies for their promotion required to look not only at the small enterprises but also at the larger firms that compete with them, supply with them inputs, and market their products. Although subsector
approach offered a framework for rapidly assessing the small enterprise dynamics and deciding development interventions, the subsectoral approaches have limited success in influencing the small enterprise development policies. However, it contributed to a solid understanding on small enterprises dynamics.

As evidenced from the literature, the current thinking in small enterprise development is anchored on value chain development. The value chain approach has emerged as a blend of strategies used in cluster development, subsector analysis and business development services. This approach has been used for creating an inclusive market. There is increased consensus among scholars that value chain intervention can enable the poor to participate in the markets. 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. Recent researches highlight that market integration is achieved though facilitating and strengthening of inter-firm relations, improving governance and facilitating upgrading practices along the value chains. Several studies confirms that, effective inter-firm elations are important for reducing transaction cost, information sharing, knowledge transfer, access to business services, reducing risks in transactions and bringing collective efficiency (Scott 1994; Schmitz 1995; Meyer-Stamer 1998).

The literature shows that, concept of governance is fundamental in understanding these relationships, especially vertical relations. An important function of governance is reducing risk in transaction and bringing stability in relationships. Reduced transaction costs and risks provide incentives for the enterprise owners to upgrade their enterprises. Another important element in the chain governance is the ‘power’. Empirical evidences suggest that, power relationships among the value chain participants can significantly affect the firm’s upgrading practices and competitiveness (Johnston and Meyer 2007). Value chain approaches consider the importance of upgrading as a source of competitiveness. Upgrading in value chain is primarily attributed to the external linkages (Knorringa 1999).

2.6 Research Gaps

As evident from the literature, most of the studies in global value chains dealt with sectors like auto
components (Kaplinsky and Morris 1999), apparel manufacturing (Bonanich et al. 1994; Gereffi 1994, 1999), agricultural commodities (coffee, tea, rubber, fresh fruit and vegetable (Raynolds 1994) and electronics industries (Kenney and Florida 1994), in which large manufacturing firms from developed countries establishing relations with firms in developing countries. The focus of inquiry is on governance and upgrading, a phenomenon that takes place as a result of insertion of the firms in global value chain. Results from these studies reveal that, integration into global value chain provide enormous opportunities for those enterprises that are strong enough to grasp the benefit from them (Appelbaum and Gereffi, 1994; Gereffi and Korzeniewicz 1994; Gereffi 1994; 1999; Humphrey and Schmitz 2000; Gereffi et al. 2001; Bair, 2005).

But, how these new opportunities are available for a large majority of micro and small enterprises is not well examined.

The review of literature reveals an increasing interest among scholars in the study of value chains. As evident from the literature, access to market is critical small enterprise development. The recent initiative in small enterprise development focuses on linking the small producers into productive markets/global value chain. 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. 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; Singh 2012).

Although, there are studies in understanding how value chain and similar programmes work for the poor, the concept is still evolving (DFID 2000; SIDA 2003; UNDP 2004; Humphrey and Navaz-Aleman 2010). There are only few empirical studies that deal with pro-poor market development/value chain development (Prahalad 2005). Interestingly, most of these studies originate from outside of India, with some exemption, the study by Harper (2009), Harilal et al. (2006), Singh (2009), Bharuah, (2009), Rao (2009) and Sharma (2009). These studies focused more on documenting best practices of
value chain interventions, but lacking systematic analysis of processes of integration into the markets.

It is to be noted that, there are only few studies focusing on handlooms (Modak 2006; Mamidipudi and Gajjala 2008; Bhagavatulla et al. 2010; Mukund and Shyamasundari 2000). This shows that, although handloom sector in India has a significant presence in global markets, their integration into global markets has not been a subject of extensive research in India.

***