CHAPTER 4

DATA AND ANALYSIS

4.1 Introduction

This chapter examines the characteristics of small-scale handloom production from Kannur district and its value chain. The chapter is organised into two sections: first section deals with the presentation of field data with a description of value chain; and the second section deals with the analysis of field data. The focus of analysis is on process of integration of small scale-handloom enterprise into productive markets by analysing the nature and features of inter-firm relations, governance structure of the value chain and upgrading practices.

4.2 Description of Kannur Handloom Value Chain

4.2.1 Value Chain Map
The value chain map for handloom production from Kannur district describes four levels of functions and the various actors in the value chain (Figure 4.1). The value chain functions include input supply, production, wholesaling and retailing. The producers are central to the value chain, and they are organised into household enterprises and co-operatives. Producers in the first category, consist of home-based weavers with own looms and organising their work with involvement of family members. A small portion of the producers in this category employ one or two hired workers. Few of them are organised into self help groups (SHGs) and work sheds. A large number of producers work with co-operatives, in which the producers work from a common work-shed. The co-operative society mobilises the raw materials and resources and market the products on behalf of its members. There are 30 co-operatives in the district with approximately 3000 members.24

The value chain map depicted in the figure captures multiple channels, agents and processes through which the handloom products reach to the market. The co-operatives operate in four market channels and the home-based producers in three market channels.
Market channels for home-based enterprises: Hanveev acts as the important market channel for the home-based producers. Established in 1986, Hanveev provides both production and marketing support to home-based handloom producers. It had established production centers in proximity to the therus, the traditional weaving streets of Chaliya community and supplies raw materials and other inputs on credit to the producers through its production centers. In addition to the supply of raw materials and other inputs, it also performs other functions like procurement, transportation, bulking, finishing, packing and retailing. The central processing facilities under it provide facilities for dyeing, finishing and packing. It had established 86 exclusive show rooms throughout the state, which play an important role in marketing of the handloom products, and these shops are open throughout the year selling a variety of handloom products. It also participates in the exhibition and trade-fairs organised by the state government during the festival seasons.

The home based enterprises also sell their products direct to the consumers by participating in trade-fairs and exhibitions. The state government provides various kinds of supports and assistances to the producers in terms of travel grants, free accommodation, and booking of stalls for participation in the exhibitions. The producers also sell their products to the retail shops in the local market. Even though the number of channel participants in this category is very limited, this channel provides opportunities for the producers to have direct contact with the consumers, eliminating other intermediaries.

Merchant exporters constitute another market channel open to the producers in the home-based enterprises. The merchant exporters from the district have subcontracting relations with the home-based producers, in which the producers receive the dyed yarn and undertake production and supply the final products on completion of the work. These products mainly involve production of low volume items such as bed sheets, durries, door mats, bath towels etc.
**Market channels for producers in the co-operatives:** There are four main channels through which the products of the co-operatives reach to the market. The first channel involves direct sales to the consumers through the retail outlets and participation in the exhibition and trade-fairs. Out of the 30 co-operatives, almost all of them have their own retail show rooms. Around 30 to 40 per cent of their annual sales happen through the retail sales mainly through the exhibition and trade-fairs organised during the major festivals like *Onam*, *Christmas* and *Ramadan*. Co-operatives also participate in other national and international trade-fairs. In this channel, most of the sales happen during the festival seasons, when the government offer rebates to the consumers on purchase of the handloom products.

The second major market channel open to the producers in the co-operatives consists of the sales to the exporters. Out of the 30 co-operatives, almost 20 of them have direct sales to the merchant exporters. This channel assumes importance in terms of the volume of trade and regularity in business. It was reported that, almost 40 to 60 per cent of the products are sold to the exporters. While the sale in the local market is seasonal, direct sales to exporters offer regular business, since the merchant exporters\(^\text{26}\), purchases on a regular basis.

Direct sales to the international customers constitute the third market channel for the producers in the co-operatives. Three out of 30 co-operatives have direct export and they reported that, close to one-third of their annual production is directly exported. In addition to this, these co-operatives participate in the international trade-fairs and exhibitions that provide them opportunities to establish contact with the international buyers.
Sales to the apex institutions like *Hantex* (Kerala State Handloom Textile Corporation) and *Hanveev* (Kerala State Handloom Development Corporation) constitute the fourth market channel for the producers in the co-operatives. Both these organisations procure products directly from the producer co-operatives and market through their retail outlets. Major share of products are sold to the institutions like schools, hospitals and other public and private sector establishments. In the case of co-operatives, it was reported that nearly five to 10 per cent of their annual production is sold to the apex federations.

**Figure 4.1 Value chain map of handloom production in Kannur district**

Inputs

Production
Dyes

Retailing

Wholesaling
Looms
Yarn
BDS

Household Enterprises
[600 Producers]

Co-operatives
[3000 producers]

Hanveev

Hantex

Exporters

Exclusive show rooms

Exhibition/ trade-fairs
Importers/ Chain stores/Distributors

Local/National Market

Consumers
International Market

Source: Compiled by the author
4.2.2 Enterprises in the Value Chain

The producers work with two categories of enterprises, namely co-operatives and home-based enterprises. This section provides a description on key characteristics of the enterprises in the value chain.

4.2.2.1 Co-operatives

A large number of producers (more than 95%) work with co-operatives. The co-operatives are registered as industrial co-operatives or primary societies and come under the administrative control of the Director of Handlooms under the state government. The co-operatives are formed with members from a single or cluster of villages and are in operation for several decades.27 At present, there are 30 co-operatives with a membership of approximately 3000 producers. Co-operatives play an important role in mobilisation of resources and organisation of production and marketing activities. The co-operatives together have a resource base of Rs359.3 million; mobilized primarily through member’s share capital, borrowings and grants from the government. The average resource base of a co-operative society stood at Rs36.2 million, with variation from Rs1.5 million to Rs92.1 million. The amount of borrowing of a society ranges from Rs0.39 million to Rs19.95 million with an average of Rs6.48 million. All the co-operatives have well built infrastructure with facilities for weaving, dyeing, packing and affluent treatment. The societies produce a wide range of products in the category of home textiles (furnishing cloths) and fabrics products which are sold in local as well as global markets. Approximately, 50 to 60 per cent of the products reach in the international markets through either sale to merchant exporters or direct export. The societies together have a sales turnover of Rs192.6 million in 2012-13, and the net sales of the societies varies from 0.03 million to Rs31.16 million with an average sales of Rs6.88 million. (Appendix-VI)

4.2.2.2 Home-based Enterprises

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This category of enterprises comprises producers working from their homes; self help groups (SHGs) and work-sheds. The producers in this category are mainly located in therus, and are associated with sixteen production centers under Hanveev (Table 4.1).

Table 4.1 Details of production of handloom clusters, 2012-13

<table>
<thead>
<tr>
<th>Production Centre</th>
<th>Number of Producers</th>
<th>Quantity of cloth(M)</th>
<th>Value of cloth(Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payyannur</td>
<td>21</td>
<td>22259.0</td>
<td>1865453.0</td>
</tr>
<tr>
<td>Kannapuram</td>
<td>56</td>
<td>46965.0</td>
<td>4430288.0</td>
</tr>
<tr>
<td>Kambil</td>
<td>42</td>
<td>66204.0</td>
<td>5014921.0</td>
</tr>
<tr>
<td>Edakkad</td>
<td>36</td>
<td>19187.0</td>
<td>1677226.0</td>
</tr>
<tr>
<td>Munderi</td>
<td>28</td>
<td>24426.0</td>
<td>1795951.0</td>
</tr>
<tr>
<td>Anjarakkandi</td>
<td>32</td>
<td>30047.0</td>
<td>2589409.0</td>
</tr>
<tr>
<td>Kuthuparamba</td>
<td>42</td>
<td>47711.0</td>
<td>3579610.0</td>
</tr>
<tr>
<td>Kottiyo Di</td>
<td>58</td>
<td>35256.0</td>
<td>2589409.0</td>
</tr>
<tr>
<td>Thalasseri</td>
<td>49</td>
<td>38202.0</td>
<td>3107254.0</td>
</tr>
<tr>
<td>Chombala</td>
<td>52</td>
<td>51132.0</td>
<td>4777527.0</td>
</tr>
<tr>
<td>Madappally</td>
<td>35</td>
<td>44223.0</td>
<td>4368191.0</td>
</tr>
<tr>
<td>Meppayil</td>
<td>34</td>
<td>25963.0</td>
<td>2735496.0</td>
</tr>
<tr>
<td>Maniyoor</td>
<td>48</td>
<td>42822.0</td>
<td>2439735.0</td>
</tr>
<tr>
<td>Koyilandi</td>
<td>48</td>
<td>43095.0</td>
<td>3309199.0</td>
</tr>
<tr>
<td>Tanur</td>
<td>9</td>
<td>12727.0</td>
<td>675149.0</td>
</tr>
<tr>
<td>Azhikode</td>
<td>39</td>
<td>29554.0</td>
<td>2221640.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>629</strong></td>
<td><strong>579773.0</strong></td>
<td><strong>48155593.0</strong></td>
</tr>
</tbody>
</table>

Source: Data collected from production centers

The production centers are established within a cluster of villages in proximity to the chaliya therus, the traditional weaving streets of chaliya community. The producers work from their homes. Few of them are working with SHGs and work sheds. They receive dyed yarn on credit from the production centers. The production is organized with the support of the family members. In most cases, the husband and wife are involved in the weaving activities. The final products are procured by Hnaveve, through its production centers on weekly basis. The weavers are paid on piece rate after deducting the cost of raw materials and advances made to them. Apart from payment of wages, the producers also receive bonus and other production incentives like contribution to thrift fund and medical insurance.

4.2.3. Products and Production Process

A variety of products in home textiles and clothing, furnishings, garments and made-ups are produced from the district. The major products includes: dothisies, lungies, bed sheets, turkey towels, sarees and
home furnishing items like curtains, cushion cover, table cloths, floor mats, kitchen wears, bed linen, pillow covers etc.

The handloom production process involves a series of inter-linked activities with involvement of a number of individuals. All the functions are performed manually. The process starts with dyeing of yarn, which are crucial in the production of handlooms and mostly performed under the supervision of dyeing-masters. The dyeing process is followed by winding and warping which involves preparation of yarn suit to warping by winding in bobbins and cones with the help of a winding wheel. Warping involves preparing the yarns for warp, the set of lengthwise yarn that are held in tension in a loom or frame and is done by using warping frame or warping tree. Warping is a skillful job which needs to be completed with conscious effort, since any defect in warping could damage the entire weaving. The warping is followed by twisting, a process that binds yarn together in a continuous strand through a combing process to fit in the weaving frame. This is followed by weaving, a process of interlacing of the threads of weft and warp on a loom. Finally the cloth is cut from the loom, removed the dust particles and broken threads, checked for the quality and sent for calendaring and finishing works.

The production organisation and marketing of the products slightly varies in co-operatives and home-based production. While in the case of co-operatives, most of the production organisation is carried out centrally, in the home-based units, the production activities are scattered and performed by individual units.

4.2.4 Value Addition

Most of the value chain functions are integrated within the organisation itself. The value chain functions start with procurement of inputs and pass through inter-linked activities such as dyeing, winding, warping, twisting, weaving, finishing, packing, transport and retailing. Table 4.2 provides the value added for the cloth production in co-operatives. As revealed from the data, most of the value addition takes place at weaving and dyeing. The proportion of value added varies along the product lines due to the extent of labour required and cost of raw materials for production of cloths. For example, in the case of saree production, weaving contributes nearly one-third (28%) of the value
added. Where as its contribution in total value added for *furnishing* cloths is around 16 per cent only. This is because, in the case of thin varieties like *sarees*, *lungies*, the labour required is more as compared to the thick varieties like *furnishing* cloths, bed sheets etc. Dyeing function contributes to next highest in value addition, and it varies from 2.6 per cent in the case of thin varieties to nearly one-fifth of the total value added in the case of thick varieties such as furnishing cloths. The variations in value addition are also due to the cost of chemicals and depth of dyeing based on the quality specifications and designs. Winding works contributes to nearly one-tenth of the value added, with little variation among the product lines. Other functions such as warping, twisting, finishing, packing and transporting contribute relatively small proportion of total value added. The retail functions are carried out by the society through participation in trade-fairs and sales through show rooms and the value added at retail function contributes to nearly one-tenth of the total value added. (Figure 4.1)

**Table 4.2 Value added for cloth production in co-operatives**

<table>
<thead>
<tr>
<th>Value added</th>
<th>Cotton Bed sheet</th>
<th>Furnishing cloth</th>
<th>Lungi</th>
<th>Saree</th>
<th>Precot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yarn cost</td>
<td>5702.5 (26.7)</td>
<td>8998.1 (33.8)</td>
<td>3307.1 (22.3)</td>
<td>2433.8 (14.3)</td>
<td>12607.5 (29.1)</td>
</tr>
<tr>
<td>Dyeing</td>
<td>2052.4 (9.6)</td>
<td>2875.6 (10.8)</td>
<td>1181.1 (8.0)</td>
<td>405.6 (2.4)</td>
<td>8364.0 (19.3)</td>
</tr>
<tr>
<td>Bobbin winding</td>
<td>830.6 (3.9)</td>
<td>957.7 (3.6)</td>
<td>623.9 (4.2)</td>
<td>784.1 (4.6)</td>
<td>2878.7 (6.6)</td>
</tr>
<tr>
<td>Pirm winding</td>
<td>1115.1 (5.2)</td>
<td>1060.2 (4.0)</td>
<td>847.3 (5.7)</td>
<td>1492.7 (8.8)</td>
<td>1840.9 (4.3)</td>
</tr>
<tr>
<td>Warping</td>
<td>149.2 (0.7)</td>
<td>187.3 (0.7)</td>
<td>123.5 (0.8)</td>
<td>145.6 (0.9)</td>
<td>350.0 (0.8)</td>
</tr>
<tr>
<td>Twisting</td>
<td>252.0 (1.2)</td>
<td>106.9 (0.4)</td>
<td>200.7 (1.4)</td>
<td>239.1 (1.4)</td>
<td>150.6 (0.3)</td>
</tr>
<tr>
<td>Weaving</td>
<td>4004.3 (18.8)</td>
<td>4457.0 (16.7)</td>
<td>3066.7 (20.7)</td>
<td>4758.6 (28.0)</td>
<td>8480.7 (19.6)</td>
</tr>
<tr>
<td>PF, Bonus etc</td>
<td>3508.9 (16.4)</td>
<td>3384.6 (12.7)</td>
<td>2431.1 (16.4)</td>
<td>3695.0 (21.8)</td>
<td></td>
</tr>
<tr>
<td>Finishing</td>
<td>200.0 (0.9)</td>
<td>200.0 (0.8)</td>
<td>200.0 (1.3)</td>
<td>100.0 (0.6)</td>
<td>400.0 (0.9)</td>
</tr>
<tr>
<td>Packing</td>
<td>200.0 (0.9)</td>
<td>200.0 (0.8)</td>
<td>300.0 (2.0)</td>
<td>200.0 (1.2)</td>
<td>400.0 (0.9)</td>
</tr>
<tr>
<td>Transport</td>
<td>400.0 (1.9)</td>
<td>400.0 (1.5)</td>
<td>500.0 (3.4)</td>
<td>400.0 (1.4)</td>
<td>600.0 (1.4)</td>
</tr>
<tr>
<td>Wholesale discount</td>
<td>1059.0 (5.0)</td>
<td>1369.6 (5.1)</td>
<td>736.9 (5.0)</td>
<td>835.5 (4.9)</td>
<td>3610.0 (8.3)</td>
</tr>
<tr>
<td>Retail margin</td>
<td>1870.9 (8.8)</td>
<td>2419.7 (9.1)</td>
<td>1301.8 (8.8)</td>
<td>1476.0 (8.7)</td>
<td>3613.8 (8.3)</td>
</tr>
</tbody>
</table>
The home based units produces relatively low value added products like, *kavi, towels, shirting, gada* etc. These products are mostly sold in the local markets. Table 6 provides details of the value added for five products from the home based units. Most of the value added, represented as a proportion of customer’s price, takes place in weaving, followed by retail functions. The weaving charges account for nearly one-fourth of value added, and varies from one-fourth to one-fifth of the total value for various products. Winding works contributes to eight to thirteen per cent of the total value of the products. The transport and finishing function contributes to almost four per cent of the total value added. The retail function is carried out by *Hanveev* through its exclusive show rooms throughout the state. The retail function accounts for nearly 17 per cent of the total value added. Thin varieties of cloths like *kavi, school uniforms* have relatively higher value added in weaving and warping functions. (Figure 4.3)
Table 4.3 Value added for cloth production in home based units

<table>
<thead>
<tr>
<th>Value added</th>
<th>Linen shirting</th>
<th>Kavi</th>
<th>Honey Comb Towel</th>
<th>School Uniform</th>
<th>Gada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yarn value</td>
<td>16594.5 (57.8)</td>
<td>5359.8 (37.5)</td>
<td>4542.8 (38.1)</td>
<td>4318.3 (33.3)</td>
<td>3778.1 (31.1)</td>
</tr>
<tr>
<td>Bobin winding</td>
<td>875.9 (3.0)</td>
<td>970.9 (6.8)</td>
<td>519.0 (4.4)</td>
<td>833.9 (6.4)</td>
<td>962.1 (7.9)</td>
</tr>
<tr>
<td>Pirn winding</td>
<td>842.2 (2.9)</td>
<td>1045.8 (7.3)</td>
<td>570.5 (4.8)</td>
<td>915.9 (7.1)</td>
<td>1026.4 (8.4)</td>
</tr>
<tr>
<td>Warping</td>
<td>137.0 (0.5)</td>
<td>118.6 (0.8)</td>
<td>126.6 (1.1)</td>
<td>139.6 (1.1)</td>
<td>118.6 (1.0)</td>
</tr>
<tr>
<td>Joining</td>
<td>103.5 (0.4)</td>
<td>103.3 (0.7)</td>
<td>70.4 (0.6)</td>
<td>109.4 (0.8)</td>
<td>101.7 (0.8)</td>
</tr>
<tr>
<td>Weaving</td>
<td>3214.0 (11.2)</td>
<td>3219.0 (22.5)</td>
<td>3172.4 (26.6)</td>
<td>3463.8 (26.7)</td>
<td>3202.1 (26.3)</td>
</tr>
<tr>
<td>Finishing</td>
<td>1088.4 (3.8)</td>
<td>540.9 (3.8)</td>
<td>450.1 (3.8)</td>
<td>489 (3.8)</td>
<td>459.45 (3.8)</td>
</tr>
<tr>
<td>Transport</td>
<td>1088.4 (3.8)</td>
<td>567.9 (4.0)</td>
<td>472.6 (4.0)</td>
<td>537.9 (4.1)</td>
<td>482.4 (4.0)</td>
</tr>
<tr>
<td>Retail margin</td>
<td>4788.6 (16.7)</td>
<td>2385.2 (16.7)</td>
<td>1984.88 (16.7)</td>
<td>2161.4 (16.7)</td>
<td>2026.2 (16.7)</td>
</tr>
<tr>
<td>Total Value</td>
<td>28732.5</td>
<td>1431.14</td>
<td>11909.3</td>
<td>12969.2</td>
<td>12157.0</td>
</tr>
<tr>
<td>Customer’s price/M</td>
<td>287.3 (100)</td>
<td>143.1 (100)</td>
<td>119.09 (100)</td>
<td>129.7 (100)</td>
<td>121.57 (100)</td>
</tr>
</tbody>
</table>

Source: compiled from field data

Note: Figures in bracket shows per cent of value added to customer’s price

Figure 4.3 Value added for cloth production in SHGs
4.2.5 Inter-firm Relations in the Value Chain

Understanding of the nature and functions of inter-firm relations are paramount in value chain analysis and design of interventions strategies. This section provides the data on nature of inter-firm relations in the handloom value chain under study.

4.2.5.1 Horizontal Relations

There is a range of horizontal interactions among the firms in the value chain through several instances of collaborative arrangements among producer groups, SHGs and co-operatives involving joint and collective actions for creating common facilities, procurement of raw materials, joint marketing of the products and advocacy and lobbying. Most of these joint and collective initiatives are facilitated under the Integrated Handloom Development Project (IHDP), which focuses on mobilisation of weaver households into small groups and providing training for skill upgradation, establishment of common facility centers and support to production and marketing assistance to the weavers. Adopting a cluster approach, the project aims at making the cluster more dynamic through building trust and networks among the producers and facilitating joint and collective action and linkages among various support institutions within the cluster.

The project activities consists of formation of consortiums, training, design development, establishment of common facility centers, purchase of equipments and accessories, conducting market survey, organising of buyer-seller meets, margin money assistance and construction of work sheds. As part of the project, a series of training programmes in designs and weaving have been organised. Over a period of 60 days, the weavers were trained on weaving in new designs using dobby and jacquard looms. The design and product development training programme covered topics in development of new designs with Computer Aided Textile Design (CATD) software. An integrated dyeing unit has been established as a common facility center. In addition, in association with National Handloom Development Corporation, a co-operative yarn bank has been established for ensuring timely supply of quality yarn. The consortium formed as part of the project represents the weavers in local and national
exhibition cum trade-fairs and also organises buyer-seller meets that aimed at improving the relations between buyers and sellers in the market.

A second category of producer organisations in the value chain comprises Self-Help Groups (SHGs). Around one-fourth of the producers in the household enterprise category were organised into SHGs. These SHGs are formed as part of a project called *Krithika*, aimed at improving the condition of the home-based weavers. These SHGs work closely with the production centers of *Hanveev*, which provides production and marketing support for the weavers though supply of yarn and procurement of products on a weekly basis. The members of the SHGs were provided assistance for group formation, group meeting, record keeping and bank linkage. In addition each group has been assisted with a bank loan of Rs230000 for renovation of looms, construction of work-shed and purchase of equipments and meeting working capital.

### 4.2.5.2 Vertical Relations

The vertical relations in the value chain comprise the producer’s interactions with the input suppliers and buyers. Vertical linkages represent a channel for transfer of learning, information and technical, financial and business services from one firm to another along the chain. The following sections provide the nature and characteristics of vertical relations and the nature of the interaction of among the various actors in the value chain.

#### 4.2.5.2.1 Raw Materials and BDS Providers

One category of the vertical relations involves the relations with the raw materials and BDS providers. The producers obtain raw materials and other inputs from National Handloom Development Corporation (NHDC) and private suppliers. In the case of co-operatives, the raw materials are procured from the regional offices of the National Handloom Development Corporation, through the yarn bank, called Kannur District Yarn Supplies Co-operatives Ltd. The co-operatives receive five per cent subsidy and free transportation in the case of purchase of yarn and chemicals from NHDC. The co-operatives also procure certain kinds of yarn, dyes and chemicals from the private suppliers in the...
Town. There are 10-15 private suppliers of dyes and chemicals in the district. Another source of inputs for the producers in the co-operative sector is the Apex Federation, Kerala Handloom Textile Corporation Ltd; popularly known as Hantex. One of the central functions performed by Hantex is the procurement of the products from the primary co-operatives for which 50 per cent of the price is paid in terms of yarn, dyes and chemicals. In the case of home based producers, the major source of raw materials and inputs is the Hanveev which procures yarn from the private mills from Coimbatore and Erode and distribute them through its production centers. Other inputs like accessories of looms are obtained through Weavers Service Centers.
The producers obtain business services from two major institutions, Weavers Service Center (WSC) and Indian Institute of Handloom Technology (IIHT). WSC primarily focuses on extension services and also experimenting in design development and imparting training to individual weavers to upgrade their skills. Apart from these two institutions, buyers (merchant exporters) also provide design and product information to the producers, which are mostly embedded in the business transactions. Hanveev also play a vital role in providing design, product development services to the weavers working from their homes. It has in-house design facilities at the regional offices with trained designers. Some of the designs are also procured from one of the private design studio, an initiative of the handloom export association from the district.

4.2.5.2.2 Buyer-supplier Relations

The producers are linked to the merchant exporters from within and outside the district through outsourcing relationship, thereby linking the producers to the international markets. Most of the co-operatives have business relations with five to six merchant exporters. Interview with the producer firms reveals that, on an average, the co-operatives sell 40-50 per cent of their products to the merchant exporters, five to 10 per cent to apex institutions and 30-40 per cent in the local market. The merchant exporters are one of the major sources of raw materials and design information for the weavers as the design information is embedded in the buying selling relations. An important feature of the buying and selling relations, especially with the merchant exporters is the long years of relations built on mutual trust and personal relations. The producers working from their homes sell their products to Hanveev, a support organisation for promotion of handloom production. Few of the home based producers, especially those working with SHGs and work sheds sell their products to multiple buyers involving subcontracting relations with merchant exporters, direct sales to retail shops and participation in trade-fairs and exhibitions.

4.2.6 Governance of Value Chain

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This section provides details of the governance pattern in the handloom value chain under study. As observed from the field data, the market transaction in the value chain is predominantly *arm’s length market relationship* and *quasi-hierarchical*. Arm’s length market transaction occurs, when the buyer and sellers have direct contact with each other and the product exchange and payment is made on the spot. Interview with the producer firms reveal, that close to 40 per cent of their sales take place with direct contact with the consumers during exhibitions and trade-fairs. In these kinds of market exchanges, the market transaction involve very little exchange of information between the buyer and seller as the product dealt with is of standard quality and meant for the mass market. The payment is made on the spot and the price acts as a governance mechanism.

The quasi-hierarchical relations take place mostly in the transaction involving the producers, merchant exporters and their foreign buyers. Unlike in the arm’s length market transaction, in this market chain, the products are manufactured based on the pre-set quality standards as per the requirements of the [foreign] buyers. The volume of transaction, quality of products and delivery time is governed as per the requirements of the buyers. The market transaction in this chain is characterised by frequent exchange of information between the clients (buyers) and their suppliers. The producers/suppliers are paid in advance for completing the work orders and there is commitment to purchase the items on completion of the work. These types of market exchanges are co-ordinated by buyers or lead firm through pre-set norms of quality compliance, lead time, volume of transaction and delivery time. The risk in transaction is offset by employment of contracts or relational governance practices based on trust. The quasi-hierarchical relations are characterised by intense communication between the producers and the buyers often carried out through the visit in the factory premises, face to face communication and e-mails/phone calls etc.

### 4.2. 7 Upgrading Practices

In the value chain literature, the concept of upgrading has been used for explaining the competitiveness of the firms. Used to denote the abilities of the firms to innovate and value addition, upgrading
practices forms an important component in understanding of the process of market integration. This section captures the upgrading practices in the handloom value chain under study.
4.2.7.1 Product Upgrading

The most common upgrading practices taking place in the value chain involves adoption of new designs, introduction of new product lines and manufacturing of value added items. The handloom products are characterised by its colour, texture, designs and varieties. It is found that, the information on products and new designs are exchanged along the value chain and are mostly embedded in the buying selling relations. The international buyers transmit the design and product information to their suppliers, which in turn is passed on to the producers. The producers shared that, some of the product information and designs are also obtained from the BDS providers and through participation in national and international trade-fairs. In the export market channel, the governance structure has an important influence on product upgrading, since the information about new products and designs are usually embedded in the vertical relationship between the firms. Another example of product upgrading along the value chain is the production of made-ups. Most of the made-ups are produced in-house and through outsourcing relationships with women groups and individuals which involves stitching of bed sheets, table mats, cushion cover, chair pads, curtain, aprons, gloves etc.

4.2.7.2 Process Upgrading

There are several examples of process upgrading found in the value chain that involves improvement in the production process through investment in machinery, training of workers and implementation of quality systems. The interview with the producer organisations revealed that, the process upgrading is motivated by the desire to improve the productivity and quality of the products. The following sections provide evidences on process upgrading along the value chain.
Mechanised winding: Low productivity of the labour is one of the constraints in the handloom value chain. The labour productivity in handloom is very less compared to power loom and mill sector. The low productivity also constrains the earning potential of the workers. In order to address this issue the producers, in co-operatives and well as working from homes, have introduced electrical winding machine for facilitating speedy winding.

Mechanised dyeing: Another example of process upgrading found in the value chain is the mechanised dyeing. Hanveev has recently created facility for mechanised dyeing of yarn at the central dyeing unit at Chirakkal, which serves as a common facility centre for the weavers associated with Hanveev and other co-operatives in the cluster. The facilities at the centre are also available for private handloom manufacturers in the cluster. It has modern facilities for dyeing of fabrics, hank yarns and finishing works. The fabric dyeing facility is equipped with electric boilers, roller dyers and jet dyers. The dye house has the capacity of dyeing of 600 kg of fabrics and 200 kg of hank yarn in a day. It has installed a fully automated Jet dyer with capacity of dyeing of 500 meters of fabrics within two hours of time. The dye house has also the facilities for finishing, calendaring, curing and folding. The calendaring and curing process remove all the dirt particles from the fabrics and soften them with a glossy appearance. The shrinkage unit has the facility for pre-shrinking, zero-zero finishing, ironing and folding. The facilities at the finishing unit are largely used by the co-operatives as well as private handloom manufacturers in the district.
**Quality systems and practices:** Interview with the producer organisations revealed that, the producers, both in co-operatives and working from their homes, has positively responded to the need for quality improvement as a result of frequent training and interaction with the similar producers during trade-fairs and exhibitions. During the interviews, it was reported that, the merchant exporters dealing with the producer’s co-operatives exert pressure on them to meet the quality standards required for the international market. One of the co-operatives has responded to quality improvement by implementing ISO standards, the decision to move for improving the quality process is motivated by the access to the international markets through direct export and subcontracting relations with the merchant exporters. As revealed from the interview, one of the merchant exporters, whose firm is certified for SA8000, assists the co-operatives it deals with, in maintenance of cleanliness and technical assistance for improving quality.

**Skill improvement:** The weaver’s co-operatives and Hanveev organises training for existing as well as new weavers associated with them by making use of the financial support from state and central governments under Integrated Handloom Development Scheme. The skills training are primarily delivered in collaboration with Weavers Service Centre, a nodal agency for technical support and promotion of skills among the weavers, and Indian Institute of Handloom Technology. WSC organises short term demand driven training programmes for the weavers and refresher courses for weaving experts from other training institutes. The centre also undertakes simple improvements in looms and process of weaving. At the request of co-operatives, SHGs, exporters and merchant exporters the technical experts from the dyeing section organises field level training courses. It also conducts dyeing exhibition cum training programmes for the demonstration of dyeing techniques using natural colours.

### 4.2.7.3 Functional Upgrading
The functional upgrading mainly comprises of the adoption of additional functions of ‘distribution and marketing’ and manufacturing of ‘made-ups’. The most common distribution and marketing practices found in the value chain, is the marketing by the producer organisations. The producers have direct contact with their suppliers and customers through their producer organisations or by themselves. The involvement of intermediary or agent is rare, except in the case of few buying agents in the international market channels. The producer organisations (co-operatives) have functional linkages with the apex federation called *Hantex* that facilitate marketing of handloom products in the state. Almost all co-operatives have established their own retail shops as well. The co-operatives also facilitate collective marketing of their products through participation in trade-fairs and exhibitions. In addition, one of the consortia of co-operatives has established a retail shop for marketing their products.

Apart from the production of traditional fabrics several co-operatives have upgraded their activities with production of ‘made-ups’ and ‘home furnishing’ items. This functional upgrading is possible as a result of linkages with the merchant exporters in the district. By making use of their strength in production of made-ups with minimum costs, the co-operatives take up contract production for merchant exporters. Functional upgrading is also visible among the producers working from their homes and SHGs. Although, most of the producers in this category sell their products to Hanveev, some of the producers, mainly those working with SHGs and work sheds, are attempting self-marketing of their products, through direct contact with retailers and consumers by participating in the local exhibitions and trade-fairs.

### 4.2.7.4 Sector-wide Upgrading

In addition to product, process and functional upgrading, several examples of sector-wide upgrading practices are observed in the value chain. These sector-wide upgrading strategies comprised of relentless lobbying and advocacies aimed at improving the infrastructure facilities, acquiring geographical indication for the products from the cluster and brand building initiatives. Recent upgrading strategies include the efforts to capitalise on the strengths in the tourism front as well. The
tourist literature describes the town as the *Land of Looms and Lores*. The ‘handloom village project’, a recent initiative of the state tourism department, aims to develop the select handloom villages as one of the major tourist spots by creating facilities for home-stay for tourist in the handloom villages. It also involves establishment of ‘handloom museum’ showcasing the history of handloom industry in the district as a tourist attraction.

The sector-wide upgrading practices are also facilitated by recent government initiatives through improving the infrastructural facilities and cluster development projects under integrated handloom development scheme. For example, the recently started, Textile Park at Nadukani, established under public private partnership, is expected to make the town a hub of textile manufacturing activities in the district. It has a wet processing facility that can process 15 tons of yarn and 70,000 metres of fabric a day and an effluent treatment plant that can treat 750 cubic meters of effluents a day is all set to give a fillip to the industrial development in the area. The cluster initiatives under Integrated Handloom Development Scheme aim at improving the productivity of the weavers working with the co-operatives and those working from their homes.

### 4.3 Analysis of Data

Having examined the characteristics of the handloom value chain in terms of various value chain participants and their functions in the previous section, this section provides a more detailed analysis on key aspects of the handloom value chain under study.

#### 4.3.1 Quality of Inter-firm Relations

The qualitative inquiry, mainly through interview of the producers and buyers (merchant exporters) in the value chain has identified the following characteristics specific to the firm relationship in the value chain. The key characteristics identified are typologies of inter-firm relations, closeness and duration of relations, nature of buyer-supplier contacts and means of interactions and trust in relations. Each of them is explained in the following sections.

#### 4.3.1.1 Typologies of Inter-firm Relations

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The handloom producers in the value chain are linked together through both horizontal and vertical relations involving interactions with producer’s organisations comprising co-operatives, SHGs, association of producer organisations and through buying selling relations along the value chain comprising input suppliers, BDS providers, consumers, buying agents etc. Interview with the managers of producer co-operatives and executives of production centers provides a deep understanding on the role of producer organisations in facilitating and strengthening of inter-firm relations. Mr Shaju, secretary of one of the Weavers Co-operative Society explained to me their activities aimed at building trust and cohesiveness among the members of the group. As revealed from the following excerpts from the interview with Mr. Shaju, these relationships are built over a period of time that involves a series of activities for bringing the producers together. He mentioned,

“…our society is the nodal agency for implementation of cluster development project under the Integrated Handloom Development Project (IHDP). The project is implemented through adopting a cluster approach and benefits 300 handloom weaver households from two Grama Panchayats. The initial project activities involve trust building activities through organizing a series of meetings and explaining the importance of the project. The producers are also mobilized into small groups for facilitating close interaction among them. The project activities comprised training for skill upgradation, design and product development, supply of loom and accessories, establishment of common facility centers, organising of exhibitions and buyer seller meets. A consortium consisting of the representatives of the co-operatives, district industrial centre and financing banks has been formed as part of implementation of the project. The weavers are benefited through the training programmes delivered with trainers from Weavers Service Centre (WSC) and Indian Institute of Handloom Technology (IIHT)”. The vertical relations involve the relations between the buyer and suppliers. The producers are linked to the merchant exporters from within and outside the district who play an important role in linking the producers to the international markets through outsourcing relationships. The data gathered from the perspective of the manufacturer and exporters of handloom products from the cluster illustrates their relations with the small scale producers in the value chain and their role in connecting them with the international markets. These firms connect the small-scale handloom producers from the district to the global value chains through subcontracting relationships with the producers. The products are sold in various international markets including US, UK, Japan, Australia, Austria, Sweden, Switzerland and Middle East countries. The interviews with the producers as well as export firms shows that, inter-firm relationships, both vertical and horizontal relations, are helping the small scale producers to access
inputs, credit, information, and also reduce cost in transaction, achieve scale economies, sharing of information improving their efficiency.

One of the major functions performed by the horizontal relations, as observed from the field work, is the mobilization and pooling of resources. This is achieved through mobilization of producers into producer organizations involving co-operatives and SHGs. The producers’ organization facilitates collective mobilization of resources and creation of facilities for production and marketing of the products. For example, the raw materials and inputs are procured by the organization and production is carried out from work sheds owned by the co-operatives/SHGs. The products are also collectively marketed by their [co-operatives] and SHGs.

4.3.1.2 Closeness and Duration of Relations

An important line of inquiry with regard to nature of inter-firm relations was confined to understand the closeness and duration of buyer-supplier relations. The buyer-supplier relation in the value chain is more direct and closer. It is found that, the buying and selling relations in the value chain are characterised by very close and relatively long duration of relations often span over 20-25 years and passed through generations to generations. In an interview, the secretary of one of the co-operatives noted that; ‘our society deals with 4-5 merchant exporters from the district and our relations with them span over 30 years. A major share of our business comes through the work orders from these buyers’. Secretary of another co-operative society said that; ‘we have business relations with 6-7 merchant exporters that form close to 50 per cent of our business. We are dealing with these firms for more than 30 years and they are very well known to us’.

It appears that the producers maintain very close relationship with their buyers and in certain cases the buyer supplier relations goes beyond the business relations. As revealed by the secretary of one of the co-operatives; ‘our relationship with some of [our] buyers goes beyond business relations. We maintain
good personal relations with them. We often meet and discuss various issues. These are not necessarily related to business. We often discuss the political issues, local festivals and general development in the district. We also attend family functions including marriage and other ceremonies.’

As revealed from these interviews, it is found that this personal relationship has important role in maintaining the business relations. The buyer-supplier relationships are also characterised by frequent visit of the buyers to the producer firms. In an interview, one of the buyers noted that;

“...I visit my supplier’s production site at least once in three months; I frequently interact with them over the phone as well. We talk on issues such as work order, replacement, payment related concerns, new orders etc. Most of the concerns are sorted out during these conversations. When I meet my supplier in person, it creates urgency among them to deliver my order in time and maintaining the quality of products”.

The producers working from their homes who have outsourcing relations with the merchant exporters also reported several years of close personal relationship with their buyers. It is found that the owners of these enterprises have long years of working relationships in the factories of the exporters and this personal relationship helps them to get work order from the merchant exporters. During the interview, Mr. Raghu described how his personal relations with their previous employers help him to get work orders and remain in his business as follows,

“…..the company I was working with previously was reducing their regular workers. Several workers, including me have to leave their job. However, the company assured its ex-workers to give job works to them, if they work from home. After leaving from the job [in 1995], I have established a work shed. It cost me Rs2 lakh mobilised out of the savings and borrowing. Initially, there were only four looms. Now, my unit gets job work from three private weaving companies. The work involves production of floor mats and bath towels. Raw materials and designs are supplied by the companies. I need to organise the weaving activities and supply the finished products in time. At present, eight people work in my unit. I give the winding work to the women who work from their homes. Four people work in winding. The weavers are paid based on the quantity of the cloths produced. The wage rate for weaving is Rs21 for making one piece floor mat and Rs 35 for one piece of bath towel. A weaver could produce eight pieces of floor mats and five pieces of bath towels in a day. The weavers are employed six days in a week. The winders are paid at the rate of Rs8.5 for winding of one hank of yarn. The workers are paid based on weekly basis. The unit gets regular work orders from the private companies. The work order is for a period of 20-30 days within which he needs to supply the finished products”.

As revealed from the interviews with the merchant exporters and secretaries of co-operatives, it is clear that, the merchant exporters act as a gate way for small producers for integrating to the international markets through building relationship with their clients from international markets. In an interview, Mr
Baburaj, Managing Partner of an export firm explained the importance of building and maintaining the relationship with the clients in the international market,

“……retaining the existing clients is very critical in [our] business. Once we lose a prime client, it will affect the business in two ways, one is ‘loosing the business’ and the other is ‘bad mouthing’. So, we do everything possible to maintain our business relations and retain [our] clients. Most important in building relationship with [them] is doing business in a professional way. It is important to follow the due diligence in the business process including adherence to quality standards and social accountability in which the international buyers are more concerned with”.

4.3.1.3 Nature of Buyer-supplier Contacts and Means of Interaction

The buyer-supplier contact, both in local market and export market channels takes place mainly through participation in exhibition and trade-fairs, buyer-seller meets and also through contacts over phones and e-mails. There are three co-operatives that directly export their products to international markets. They participate in national and international trade-fairs and exhibitions which offer [them] opportunities to meet a number of prospective buyers. The producers also explore the potential of modern information technology for prospecting and interacting with their clients. During the interview, Mr Viswanath, Secretary of another Co-operative Society shared his experience of meeting with one of the international buyers [his] firm deals with,

“……we are relatively new in the export business. At present our society has two regular buyers from the international markets. I often search the internet to get contact with [potential] buyers for our organic products. After a couple of week’s effort, I got in touch with two US based buyers through e-mail. We interacted over a period of time and exchanged designs and sample products by courier services and waited for their response. In a couple of week’s time, [I] received an e-mail from one of the clients stating their interest in buying from us. This was quite encouraging. We continued our communication, negotiated the price, quality and terms of delivery, everything through e-mail. We continue this relationship for the last three years”. Most of the interaction with the client happens during the visit as part of exploring the markets. Mr. Baburaj, managing partner of one of the leading exporters of the handloom products from the district shared his experience of meeting one of their [first] clients when they decided to enter in export business,

“……in 1964, [I] travelled to Germany for understanding the market, the products and the new clients. I stayed almost three months there, exploring new opportunities. After coming back, we started working on new designs and product development. During that time, only few were in the export business from Kannur. One such company was ComTrust Weaving at Calicut. [We] started working with them on new designs and new product development. We also tied up with good designers from various co-operatives from Kannur. During that time,
Kannur have some of the finest cloth designers. And slowly, we zeroed down to the right products and the first consignment was shipped to Germany in 1964”.

At present, Mr. Baburaj’s firm has buyers from US, UK, Germany, Japan, France, Italy, Switzerland, and Austria. Most of these contacts are through previous experiences and personal interactions during trade-fairs and exhibitions. They visit several countries and explore potential clients and also organise trade-fairs. Mr Baburaj continued that,

“…..trade-fairs are platform to interact with the [new] customers direct. The parties visiting in trade-fairs are mostly small and one time buyers. Participation in international trade-fairs is very expensive. It requires 12-15 lakh for four days’ participation. We get enquiries in trade fairs, but conversion is very less. In my experience, much of the business comes from the existing clients, mainly wholesalers and chain stores. We [do] retain them. We visit them at their places; we invite them to visit our plants as well. We [often] organise our own trade-fairs at their locations. We invite [prospective] clients to visit this event. This gives us enough time and comfort to meet and discuss with [potential] clients”.

A number of buyers, as well as producers reported that, they often interact with the clients face to face. These interactions happen mostly during trade-fairs and personal visits. During these face-face meetings, the communication is frequent and intense as well. One of the interviewee noted that; ‘participation in the national and international exhibition and trade-fairs helps [us] to have direct interaction with the buyers and [similar] producers from other states. This face to face interaction with the customers provides a great opportunity to understand the customers’ tastes and the recent fashion trends in the markets’.

4.3 1.4 Trust in Relations

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. An important aspect in trust building is that, trust is built through continuous interactions in the business. In this process, personal rapport and intimacy is most important since personal rapport creates a good relationship between the buyers and sellers. As Gundlach and Cannon (2010) points out that, trust is one of the characteristics that explain the strength of relationship between two parties in an exchange and 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.

The qualitative inquiry in this study examined the level of trust in the buyer-seller relationships. Trust is not measured directly in this study; instead, ‘proxies’ were used to understand the level of trust in the buyer-seller relationships. The proxies used were ‘presence/absence of formal written contracts’, ‘durability and closeness of relationships’, ‘enforcement of contracts’ and ‘switching/ opportunism in buyer-supplier relationships’. The interviews with the buyers as well as producers confirmed that, in general, the buyer-supplier relationship in the value chain is grounded in trust in relationships. The trust level could be inferred from relatively ‘long years of buyer-supplier relationships’ and the ‘absence of formal contracts’ in buying and selling. Most of the buyers and supplier firms interviewed in this study relied on unwritten contracts, the work order, for carrying out their business, especially in local value chain. Only very few firms have reported that, they have ‘formal written contracts’ with their clients. Despite having the absence of ‘formal written contracts’, the producers, the buyers as well, [in general] reported no incidents of enforcement difficulties with related to payments. One of the most common responses in the interviews with buyers and suppliers were that, ‘the payment is almost regular and without much delay’. On-time payment is often considered as a reflection of [any] problems related to ‘enforcement’ [even] in the absence of written contracts. Neither the suppliers nor the buyer firms reported [any] serious enforcement issues in buying-selling relationships in the local value chains. But there are few instances of ‘contract failures’ in buying selling relationship involving the international buyers, despite having written contracts. Most commonly reported instances were opportunistic behaviors of the buyers involving ‘switching of suppliers’, ‘reducing the volume’ and ‘cancellation of the orders’. In such cases, the producer interviews shared that, [they] find it difficult to ‘enforce the contract terms’ [even if], there is a formal and written contract.

The relatively less enforcement problems with regard to payment could be attributed to the level of trust and closeness in the supplier-buyer relations. Since the producers have relatively long years of relationship with their buyers, it could be inferred that, the mutual trust could be one of the reasons for
this long term buyer-supplier relationships. Similar responses were found in the buyer interviews. The interview with buyer and supplier firms revealed no instances of serious ‘contract failures’ or ‘enforcement problems’, either with regard to ‘adherence of quality standards’ or ‘payment terms’. It is found that, in the process of trust building, buyers' expectation is to receive the product on time and the supplier’s commitment to adhere agreed quality plays an important role. This was evident from the responses of the buyers. The interview with producer firms revealed that, there is strict instruction from their buyers not to reveal the identity of the buyers or using the designs or raw materials supplied by them for producing products for local sales. The buyers have the confidence that their suppliers will adhere to these instructions strictly. And this is strictly followed as well. It was quite evident from the interview with the producers, their proclivity of keeping the ‘anonymity’ of their buyer information.

4.3. 2 Functions of Inter-firm Relations
4.3.2.1 Joint and Collective Actions

One of the major functions performed by the inter-firm relations, as emerged from the field data, is the collective mobilisation of resources and creation of facilities achieved through mobilising producers into producer organisations involving co-operatives and SHGs. Several initiatives of joint actions involving the producers in the co-operatives and home based enterprises are observed in the value chain. As in the case of the central dye house, the producers share the facilities at the common facility centers. One of the implications of the pooling of resources/joint and collective action is the collective efficiency (Schmidt, 1999). The interviews with the secretaries of the cooperatives has revealed that, joint initiatives such as, organisation of buyer-seller meets, joint participation and marketing of products through consortium and participation in exhibition and trade-fairs considerably reduces their cost of marketing. Similarly the joint purchase of the raw materials and inputs through their co-operatives also considerably reduces the cost of procurement and transportation.

In an interview with Mr. Sreenivasan, explained how the joint activities under the consortium enable the producers to overcome some of the constraints faced by them. He stated,

“The Irinavu Consortium was formed in 2004, with nine weaver’s co-operatives, each consisting of 300-500 looms. The consortium facilitates joint and co-operative activities benefiting the member societies. The activities of the consortium include establishment of common facility centers, joint participation in trade-fairs and exhibitions, joint purchase of raw materials, equipments and accessories; design development, product diversification and marketing initiatives. The consortium has established a common show room in Kannur town, for exhibition and sales of the products of the consortium members. The consortium also facilitates joint purchase of yarn and chemicals that provides the societies advantage of economies of scale in terms of pooling of resources and reduced cost of transaction. Under the joint purchase scheme, the consortium procures yarn and chemicals, equipments and accessories under common quotations. For example, the common purchase has helped the member societies to get squeezing machines at Rs85000 otherwise it would have cost them Rs1.5 lakh. The consortium represents the member societies in national and local trade-fairs. Under the design and product development, the consortium had made available the services of qualified apparel designers. This initiatives has helped the member societies to understand the need for design development and product diversification, otherwise they stick on the same designs and products over the years. The consortium had evolved a common brand, IKON under which the products are sold. The consortium outsources the production of readymade shirts and other items to women groups and other individuals. A recent initiative of the consortium is the development of a website that displays the products of the member societies”.
Similarly, the Integrated Handloom Development Project (IHDP) also facilitates joint and collective action among the producers in the value chain. The cluster development activities has resulted mobilization of weavers into small groups and developing their skills through training and establishment of common facility centers for production and marketing of the products. One of the cluster development executives mentioned,

“We work to create a collective and shared responsibility among the members of the co-operative society. With support from the government, under the integrated handloom development scheme, we have mobilized 300 individual weaver households from three villages into 19 SHGs, each consisting of 15-20 members. A consortium of SHGs was also registered for implementing the activities under the project. The consortium takes initiatives for strengthening of SHGs, training of weavers, establishment of common facility centers, design and product development and marketing initiatives. We also provide training for skill improvement in the areas of weaving, dyeing and design development. An integrated dyeing unit and a co-operative yarn bank have also been established as common facility centers for assisting the weavers for enhancing their productivity. The consortium represents the weavers in local and national exhibition cum trade-fairs and also organized three buyer-sellers meet that aimed at improving the market for the handloom products”.

4.3.2.2 Sharing of Knowledge and Information

Information on certain key aspect such as price, product quality, technical descriptions of the products are vital in buying and selling relations and sharing of these information is very critical in doing business. It appears that, there is lot of information sharing along the value chain mediated by buyers [merchant exporters], producer organisations and BDS providers. The information exchanged through buyer-supplier relations mainly comprised of quality specification and design information about the products. The design information is embedded in the business relations. During the interview, one of the interviewee showed me the bundles of designs that they have developed as per the specifications of the buyers and shared with the buyers for final approval.

One of the producers mentioned that, ‘we receive design and quality information related to products from the buyers when [they] place the work order with us. Our design team work out the information and produce sample products and share with the buyer for [their] approval’. During the interviews, the producers shared that, participation in the national and international trade-fairs constitute one of the major sources of product information for them. Participation in trade-fairs provides [them] opportunities to directly contact with the potential buyers with an opportunity to understand their
product requirements in terms of quality specifications, design and materials. In an interview, secretary of one of the co-operatives shared that; ‘in one of the trade-fairs, a client showed [me] a sample design and enquired whether possible to supply similar products’. Another response was; ‘normally, [our] buyers visits and shows [us] new designs. We develop sample products and discuss the quality with them. We [often] discuss the new patterns and new products. They are very friendly with us. This friendly nature helps [us] to interact with them in a comfortable way. They also introduce [us] to new design’.

As one of the producers reported that, there is constant interaction between suppliers and buyers. He said that, ‘the buyer often phones [me] and share information on the quality of the threads and colours to be used in [their] production’. The interviews with the buyers, as well as producer firms revealed that, there is intense communication between them facilitating sharing of information along the value chain. This information sharing between them on a voluntary basis is built on the trust in buying-selling relations. As viewed by both the buyers as well as suppliers, the continued relationship based on trust brings transparency in dealings that are critical for the business development.
4.3.2.3 Lobbying and Advocacy

Previous researches have shown that, a viable organisation can assist its members in gaining access to public services serving both the interests of its members and service providers by reducing the transactions costs for both parties (Stockbridge et al. 2003). As revealed from the field work, the association of producer’s organisation and the exporter’s association from the district are continuously involved in lobbying and advocacy efforts aimed at the development of the handloom sector in the state. These lobbying efforts had resulted positive outcomes with changes in policies and introduction of new schemes. In an interview with the secretary of the Association, it was shared that,

“….the [Association] has influenced the central government for the withdrawal of the mandatory central excise duty on handloom products, benefiting the small scale producers from the district by making the handloom products more competitive, especially in the context of post Multi Fiber Arrangement (MFA), which restricts a country to export its textile products beyond a certain level to European countries and the United States. Recently, the [Association] has submitted a memorandum to the Ministry of Textiles, Government of India for easing the norms for implementation of the revitalisation packages for the weaver’s co-operatives in the state. It has also demanded the government for increasing the pension amount to weavers to Rs1000 and implementation of welfare schemes for the weavers in the state”.

The exporter’s association from the district was also instrumental in bringing policy changes in the handloom sector. In an interview with the secretary of Exporters’ Association, it was shared that,

“….as a result of the continued efforts of the Association, the government of India has declared the Kannur district as one of the centers of excellence in export of handloom products in the country. Another example of the [positive] outcome of the advocacy and lobbying efforts by the [Association] is the establishment of a design studio in the district with support from central government. In addition, a National Textile Park is being proposed in the district with facilities for organising international exhibitions and trade-fairs. The [Association] along with the local industry chamber has successfully lobbied for Geographical Indication for handloom products from the district. With the continued efforts of the Association, the government of Kerala has agreed to establish a handloom village at Azhikode in the Kannur district. The project aims to revival of the handloom industry by boosting rural tourism. In order to make the project a reality, the exporter’s association has offered 40 cents of land in the project area for establishment of a handloom museum in the handloom village. This project is expected to give the handloom industry in the district a new face by attracting tourists and thus benefiting the weaving community financially”.

4.3.3 Governance of Inter-firm Relations

4.3.3.1 Governance Pattern

The findings highlights two governance patterns namely, arm’s length market relationship and quasi-hierarchical governance. In the local market, most of the transactions take place with direct contact with the customers during exhibitions and trade-fairs. As the products are sold on the spot, the arm’s
length market transaction is characterised by very little exchange of information between the buyers and sellers. The transaction between producers, merchant exporters and their international buyers involves quasi-hierarchical governance. In this chain, the products are manufactured based on the pre-set quality standards as per the requirements of the [foreign] buyers and the quantity and quality of products, delivery time, price, payment terms etc., are explicitly communicated to the suppliers in advance. The market transactions are governed by these pre-set norms and condition and the lead firms [buyers] excise their power through instructions to the suppliers on adherence to the quality standards, modes of delivery and payment terms etc. Unlike the arm’s length market transaction, the market transaction in this chain is characterised by frequent exchange of information between the clients [buyers] and their suppliers.

4.3.3.2 Power in Governance Relations

The notion of ‘power’ in the value chain is understood as the ability of the lead firm chain to influence the decisions of the resource allocation of other firms in the chain (Dickens et al., 2001; Henderson et al., 2002). The locus of power is situated in lead firm. Recent researches show that, the concentration of power allow the lead firms to pressure the suppliers to lower costs and increase quality by adopting specific processes and standards and use of specific inputs (Kaplinsky 2013).

One of the primary focuses of analysis of governance in value chain is to determine the precise locus of ‘power’ in the chain. As revealed from the interviews with the producer organisations as well as buyers [merchant exporter], the buyers exercise their power through i) contracts and ii) enforcement of the quality standards.
4.3.3.2.1 Contracts, Negotiation and Payment Terms:

The importance of contracts in buying selling relations is universally accepted. A general notion about contractual relations in business transaction is that, contract creates a compelling environment between the parties with design of appropriate systems of enforcement acceptable to both parties involved in the transaction. Hence contractual relations have become vital in an exchange involving high degree of uncertainty and risk. The study examined the nature of transactions in buying-selling relations in the value chain and found that, most of the buying selling relations are based on personal relationship and prior experience in dealing with them, rather than driven by formal contracts. The application of written contract is very rare in the buyer-seller relations, especially transactions in the local market in which most of the transactions are based on the work order placed by the buyers. In an interview, one of the suppliers (producer co-operative) explained the typical business dealings with the [export] buyers; ‘in our case, the buyers are known to us for long years. With these buyers there is no written contract. They place the work order; we discuss the terms and conditions and agree upon the terms. Sometimes the buyers make advance payment. The remaining amount is paid at the time of delivery of the products.’

Another respondent noted that; ‘in fact, in [our] business, we do not have a formal written contract. The work order itself is sufficient for us’. The interviews confirmed that, in most cases, the buying selling relations are based on advance payment. One of the interviewee noted that; ‘our way of dealing with clients is very simple and straight forward. We discuss the mode of business with the buyers. Quite often, it may be a face to face conversation or a talk over the phone. In most cases, the clients make advance payment or raw materials. So there is no need for worry’.

The interviews with the producers reveals that, the intimacy of relations, reflected in terms of number of years of business relations and frequency of client’s visit, often replaces the need for a formal contract in the buying selling relations. One of the producers noted that; ‘given the personal relationship and the kind of transaction that take place between [us], there is no need to have a formal contract. We are known to each other for many years. So, whenever there is a work order from [our]
 clients, we negotiate and agree on an acceptable price point and start working on it. We are sure that, our buyers will honour their promise’.

On inquiry to the nature of contracts between their clients, secretary of one of the co-operatives explained their way of initiating a deal with their buyers,

“….in our case, most of the business, especially with the merchant exporters is based on the personal relationships. The buyers are mostly from the same place and are known to [us] for several years. We do business with them for the last 20-25 years. The society accepts the work order. We discuss the terms of delivery, quality; mode of payment, risk to the parties. Sometimes, the clients make advance payment at the time of placing the work order. In the case of direct export, there is written contract between the clients”.

An important aspect of business relations is the price negotiation. The interview with the producers reveals that, the price negotiation is grounded in the ‘thin margin’ that both the producers and buyers are deeply concerned with. The price is negotiated between the parties and is guided by the cost and price information. It was reported that, the producer co-operatives prepare cost sheets for each products and the same is used for price negotiation. With regard to the price negotiation, the most common responses from the interviews with the producers were that; ‘they [merchant exporters] are hard bargainers. They always look for the lowest price. We need to try [hard] to convince [our] buyers, the agreeable price based on the detailed cost calculation for each product.’

In an interview with one of the buyers, partner of an exporter firm told,

“……price and quality are very crucial [especially] in the international markets. The handloom price has become prohibitively high in the [state]. In the international market, the power loom price is the base. Now a days, the clients are very sensitive to price. And it is hard selling the handloom [value] especially after the post Multi Fiber Agreement (MFA) period. Though [our] products are of high quality, we often lose some of the customer orders on account of [unacceptable] pricing. The international clients are [very] hard in price negotiation. They always pull down the price and [willing] to shift their orders to firms in other countries [in which] they have price advantage. So [we] need to keep the price point at acceptable level to [our] clients and [we] are pressed to reduce the cost of production”.

The analysis of buying-selling relations and nature of transaction reveals that, the application of written contract is very rare in the buyer-seller relations and most of the transactions are based on the work order placed by the buyers and is treated as contractual agreement even though it is not legally bound. It is found that, the intimacy of relations reflected in terms of number of years of business relations and frequency of client’s visit often replaces the need for a formal contract in the buying selling relations.
However, in certain cases such as new clients and dealings with international clients formal contract has become apparent for reducing the risk in transactions.

4.3.2.2 Enforcement of Quality and Standards:

The next step in analysis of power relations is to understand chain governance. As evident from the interviews, the power in the buyer-supplier relationship in the value chain is concentrated among the buyers and this power is exercised in terms of deciding the quantity of purchase, timings, enforcement of quality standards and payment terms. This is confirmed from the interview of the buyers (exporters) and supplier firms. The products of the cluster feed in to the value chains of international chain stores like Walmart, Ikea, Tesco, Marks and Spencers and international distributors like Crate and Barrel and Malabar. From the buyer’s perspective, the volume of products, timings, quality standards and specifications are fixed by their international buyers [lead firms] at the time of placing order and it is the [suppliers’] responsibility to adhere to these quantity and quality specifications. On inquiry of how their international buyers ensures adherence to these quality standards in their buying and selling relationships, one of the exporters told,

“……the international buyers insist their suppliers to strictly follow the due diligence. They have the mechanism to assess whether the firms follow [these] due diligences. They do it through third party assessments, and onsite factory visits. The [international] buyers require that third party assessment reports [on due diligence] be made available in public domain before confirming the contract. This report contains two parts; observations and the other related to non conformities (NC). Observations relates to the facilities and infrastructure. NCs relates to social accountabilities involving payment of right wages, ensuring good working conditions, health and safety measures, forced labour, child labour etc. The auditors assess [these] and put their report on public domain. The buyers go through these reports and ensure [that] their suppliers follow the standards. It is required that, the audit certificate from third parties [be] accompanied for confirming the contract”.

The interviews with the producer organisation reveals that, down the value chain, while placing the work order to [their] local producers by the merchant exporters, there is strict instruction to their suppliers [producer firms] to adhere to the quality standards. The buyers [merchant exporters] or their representatives often visit the factories and inspect the quality process personally. There is frequent communication between the suppliers and buyers with regard to the designs and sample products. The producers are very proactive in adhering to the quality standards since; it provides regular business for them. There are visible changes in the attitudes of the producers towards adherence to the quality
standards; one of the co-operative societies has implemented ISO standards. In an interview, the manager of the co-operative society responded,

“……the quality process starts from adherence to standards and specification regarding the raw materials, dyes and chemicals, design and sample production of cloths. Based on the specifications, [we] produce samples and get the approval of [the] buyers. The final production starts only after getting approval of the buyers. The producers assume responsibility for any manufacturing defects in the cloth production. At the time of final inspection, mostly done by jointly by the representative of the buyer firms and producer firm, the cloths with any manufacturing defects are rejected by the buyers”.

A common perception in the value chain studies is that, the power is concentrated on the buyers/lead firms and it may put the producers in a ‘very risky’ and ‘vulnerable’ position in the buying and selling relationships. Although the majority of the producers felt their position very week in negotiating the business deal with their buyers, it was found that, as reflected in the example of one of the co-operatives, the power relations in the value chain can change when the producers acquire new capabilities. The following example of one of the co-operatives illustrates this change in power relations as a result of improving their capabilities. The society is the only ISO: 9001 certified weaver’s co-operative society in the State and the first to start direct export. The society produces a variety of cotton fabrics consisting of furnishing cloths, shirting, sarees, dothies, bath towels etc. The society produce cloths worth Rs 3.5 crores in a year and functions from its own building with the facilities of work sheds, dye houses, inspection and packing. The society sells its products in multiple channels involving direct export, sales to merchant exporters, and direct sales to consumers in the local market. Around 30% of the products are directly exported to the clients from UK and Germany. Apart from five clients from UK and Germany, the society has also business relations with four merchant exporters from Bangalore and Kannur who regularly purchase from them over the past 10-15 years and business with them account for 40% of sales. The rest is sold in the local market direct to the customers through the retail outlets and participation exhibitions and trade-fairs organised during festival seasons. It also participates in international exhibitions in UK, Germany and Delhi.

During the interview, the manager of the co-operative society said that; ‘being the only ISO certified weaver’s society in the state, our society has the reputation for its quality consciousness and availability of well experienced skilled weavers. This helps [us] to maintain the quality required by our
international buyers. This strength gives us some bargaining power with our clients while negotiating the price.

4.3.4 Upgrading Practices in the Value Chain

One of the key objectives of the study was to understand the upgrading practices in the value chain and the role of inter-firm relations and governance in facilitating upgrading practices. The filed data shows that, the producers in the value chain are upgrading along two dimensions: price and quality by improving efficiency in production through a series of firm level and sector-wide upgrading practices.

4.3.4.1 Typologies of Upgrading

The data reveal that, the most common firm level upgrading practices taking place in the value chain involves product, process and functional upgrading. As evident from the field data, most of the product upgrading is in the form of innovations in colour, texture, designs and varieties achieved through making use of the skills and competence of the producers. The process upgrading found in the value chain is limited to mechanised dyeing and winding. It is worth to note that, the producers are upgrading themselves by undertaking new functions such as adoption of new forms of distribution and marketing function, shedding the low value products and moving to production of more value added products including made-ups.

The handloom value chain under study is also characterised by a series of sector-wide upgrading practices. These involved improvement in infrastructure facilities, brand building initiatives and lobbying for recognition of the cluster under geographical indication. Building on the strength of aesthetic value of the products, they are promoted as low value high quality artisanal fabrics in the US and European markets. The merchant exporters work hard to create a unique brand value for the handloom products, especially home furnishing products from the district.

4.3.4.2 Role of Information Sharing in Upgrading

The findings highlight the importance of information sharing in upgrading practices in the handloom value chain, as most of the upgrading practices are influenced by access to information in which co-operatives, the buyers [merchant exporters] constituted the major source of information on design and
quality standards. The producers confirms that, in the vertical relations, the buyers [merchant exporters] share the design and quality information with their suppliers, so as to meet the pressing demands for quality, price and safety standards required by [their] international buyers. By making use of the strength of horizontal relations, the co-operatives and SHGs in the informal sector, are relentlessly exploring the opportunities to reach the customers direct through joint participation in trade-fairs and exhibitions and joint marketing of their products through consortia. Interviews with the producer organizations confirm that, this direct face to face interaction with the customers provides a great opportunity for [them] to understand the customers’ tastes and the recent fashion trends in the markets. A number of co-operatives have established their own show rooms in important local markets generating regular sales and showcasing their products.

4.3.4.3 Role of Lobbying in Upgrading

As revealed from the interview with the prodcer firms as well as the merchant exporters, most of these are achieved through relentless lobbying and collaborative efforts of the producer co-operatives and merchant exporters. The website of the local Chamber of Commerce states,

“…..the Chamber’s relentless focus on removing the backwardness of this region has culminated in many projects which have either been commissioned or are in different stages of completion. The Kannur International Airport, Azhikkal Port, Textile Centre at Nadukani, Inland Container Depot, NIFT Centre, GI registration for Cannanore Home Furnishing Products are some of these as a result of the hard lobbying work of the local industry body” (www.nmcckannur.com).

It is clear that, the merchant exporters from the district have successfully lobbied for recognising the district as one of the five designated towns of export excellence and recognition of the products from the cluster under geographical indication. In an interview, the secretary of the textile export association said that, in 2008, the export association, industry chamber and the producer’s association have worked together to get Gographical Indication (GI) status for Kannur handloom products. As a result, in 2009, certain items have been identified and protected as ‘Cannanore Home Furnishing Products.’

Recognising the geographical indication status for the Cannanore home furnishing products, the GI Journal (GOI, 2009) states,

“Kannur has a rich weaving tradition of 400 years that has become the fabric of the social life of the people [here]. With the remarkable hand skill passed on through the generations, the
weavers and craftsmen have shown admirable creativity that has kept the buyers around the globe spell bound. The Products from Kannur has carved for itself the admiration of the niche markets and placed in the high end stores all around. They are distinctly recognisable due to the richness it carries and the feel of life in it (p.147).”

4.3.4.4 Incentives for Upgrading
During the interview, the secretaries of the co-operatives shared that, their decision to upgrade the production facilities is influenced by a host of factors that include: an assured market for the products, higher margin in the sales, reduction in transaction costs and availability of financial resources through grants and subsidies. It is found that, the long term business relationships with the exporters and the assured market with commitment to purchase is one of the most important motivations for the producer firms to upgrade. The producers admit that, the sales margin is slightly higher in the export channel as compared to the sales in local market channels. They also admit that, the relatively higher margin in the export channel often compensate for the risk in transaction. Most importantly, the business with the merchant exporters, help the producers with regular cash flow for meeting the working capital throughout the year. This is in contrast with the sales in local market in which most of the sales happen during the festival seasons only, result of which is blocking of resources quite for a long time. It is also found that, the producers also take it as a pride due to their ability to improve product quality by making use of their skills. The improved quality and product variety achieved through upgrading, helps the societies to show their presence in the national and international exhibitions and trade-fairs attracting more customers. Most of the upgrading activities in the value chain are achieved through financial assistance from the state and central governments mobilised on the strength of their collective effort. Interestingly, the financial assistance from buyers is seldom rare, except in the case of one co-operative society that involved shared investment from one of the buyers in setting up a design studio. It is evident that, the buyer’s support in the form of design information, raw material supply and advance cash payment with the commitment to purchase motivates the producers improving the quality of products in the value chain.
The home based producers reported only few instance of upgrading except those working with SHGs and work sheds. One of the reasons for their lack of upgrading is attributed to their lack of access to financial resources and low earning from the enterprise activities. During the interviews with the producers, it was revealed that, the producers working from their home are very skeptical about the continuity of their economic activity on account of its low earning potential and lack of interest of the current generation in taking up weaving as an economic activity. Since these producers are out of the co-operative fold, their ability to earn is constrained by the opportunity of additional benefits such as contribution to provident fund, gratuity, insurance and other fringe benefits enjoyed by the weavers working with the co-operatives. Moreover, the home based units lack the facilities such as appropriate frames with Jacquard and dobby required for weaving of high end products. As a result only very few weavers in the home based units work with the exporters producing low end products such as mats, durries etc. Exporters in general prefer to work with the co-operatives, because of the economies of scale in operation, availability of skilled weavers, infrastructure facilities in terms of clean work space, access to drinking water, no involvement of child labour, provision of minimum wages and other fringe benefits which help them to comply with the most compelling demand for adhering to international standards such as social accountability (SA 8000).

4.3.4.5 Role of Inter-firm Relations and Governance in Upgrading

The findings show that, the governance relations have varying affect on upgrading practices in the value chain. This is evident from the fact that, most of the process, functional upgrading and sector-wide upgrading are achieved through forging horizontal relations which is characterised by arm’s length market transaction. As revealed from the interviews with the producer firms, most of their upgrading practices are influenced by the long term business relationships with [the] buyers. It is found that the vertical relations, [quasi-hierarchical relations] are important in product upgrading practices in the value chains, since most of these are achieved as a result of the long years of business relationships with their buyers, support services from the buyers, advance cash payment and assured market. The vertical relations also enable the buyers [merchant exporters] to make use of the craftsmanship of the
producers associated with the co-operatives in producing value added products; as a result, many of the co-operatives have established facilities for producing made-ups. The findings confirm the importance of horizontal relations in upgrading. As evident from the qualitative inquiry, most of the upgrading practices, especially process and sector-wide upgrading, in the value chain are made possible as a result of mobilisation of public resources through joint and collective action for establishment of common facility centers, organisation of buyer-seller meetings, design and product development, participation in national and international exhibitions and trade-fairs and skills training for both workers and managerial staff. The interviews with the cluster development executives reveal that, participation in the cluster development has enabled many of the co-operatives to set up common facility centers for dyeing under their consortia, with facilities for mechanized dying and treatment of effluent thereby addressing one of the critical issues facing these co-operatives.