CHAPTER 5

DISCUSSION

5.1 Overview of the Study

Building further on the key findings of the study with respect to characteristics of handloom value chain, this chapter discusses the key findings and its implications. In doing so, it draw insights from the broader literature and theories on clusters and global value chains. Using a conceptual framework incorporating three key elements of value chain, this research study examined the process of integration of the small scale handloom producers from Kannur district from Kerala into productive markets. The analysis focused on inter-firm relations, governance and upgrading practices in the value chain and sought answers for the following research questions: i) what are the nature and functions of inter-firm relationships in the handloom value chain and how do these relationships facilitate or hinder integration of firms in to the productive markets? ii) how do inter-firm relations shape the governance structure and overall competitiveness of the handloom value chain? iii) how do power relations in the handloom value chain effect inter-firm relations? iv) how do inter-firm relationships and governance structure affect firm level upgrading? v) what are the incentives, constraints and risks for the small producers to engage with other firms in the value chain?

5.2 Major Findings

5.2.1 Nature of Interfirm Relations

One of the key focuses of analysis was to understand how inter-firm relations facilitate or hinder integration of small producers into productive markets. The firms in the value chain are linked each other by forging both horizontal and vertical relations. It is well established that firm’s competitive advantage is influenced by inter-firm linkages (Porter, 1985). The inter-firm relations in the value chain facilitate the flow of information and knowledge among various participants in the value chains; helps them to find out market, new buyers, reduces transaction costs, access to inputs etc. Bhagavatulla et al.
(2010) reports that, in the handloom value chain, the design are developed based on number of interactions between customers, store owners, master weavers and weavers over several years. Since none of these are codified and remains in a tacit form, the inter-firm relations become important conduit to convert this tacit knowledge into products. Recent literature on small enterprise development also reveals that, improving inter-firm relations is an important component of value chain interventions (Meihlbradt and McVay 2005).

The interest in link between inter-firm relations and firm’s performance has been stimulated by recent works in economic sociology (Granovetter 1985; Uzzi 1997). Granovetter (1985) introduced the concept of embeddedness for explaining how social relations are important for stimulating economic behavior. Building on this theoretical argument, Uzzi (1997) has shown that, how firms make use of the inter-firm relations for accessing knowledge and information embedded in inter-firm relations. According to Uzzi, as innovative knowledge is embedded in relations, this knowledge embeddedness implies that, in order to share, transform and integrate relevant knowledge for innovation purposes, firms need to adopt and manage different types and degrees of inter-firm relationships. Drawing insights from these researches, the link between inter-firm relations and firm’s performance is further established in the cluster literature (Brusco, 1990) and global value chain literature (Gereffi et al., 2005; Humphrey and Schmitz, 2002).

Evidences from this study reveal that, it is through forging both horizontal and vertical relations the small are able to access most of the information with regard to design, product and quality that are critical for improving the performance of firms. The results from the study show that, building on the strength of vertical relations, the merchant exporters from the district are making use of the facilities and skills of the artisans from the cluster through outsourcing relations with the producer organisations and individual weavers working from their homes, ultimately linking them with the international markets. Recent researches with focus on small enterprises also confirm that, micro and small enterprises can be integrated into broader value chains through forging outsourcing relations with medium and large enterprises (Nagarajan, et al., 2008; Oyeleran, 2001).
5.2.2 Role of Trust in Inter-firm Relations

Based on the evidence from the present study, it could be inferred that, trust plays an important role in building and stabilising inter-firm relation and regulating social behaviours and business practices. This is achieved through by facilitating joint and collective actions, sharing of design information and quality standards and adoption of ethical practices in the production process. The long years of relations between the firms, characterized by personal rapport and intimacy are found to be crucial in building trust, bringing cohesiveness and stability of inter-firm relations in the value chain. The trust based relations could lead to reducing the transaction costs associated with use of formal contracts and related enforcement mechanisms.

Interviews with the producers as well as buyers confirm that, the trust based relationship with the buyers incentivises them to improve the product quality and continue the business relations as evident from the fact that, building on the strength of inter-firm relations, the buyers (merchant exporters) are engaging in educating their suppliers down the value chain (producer co-operatives) with respect to the need for improving the quality standards, improving the working environment including cleanliness, adopting safety measures in handling hazardous materials, affluent treatment etc. that are crucial improving the performance of the firms in the cluster. A growing body of scholarships highlights the importance of trust in building inter-firm relationships and its implications for firm’s performance. According to Burchell and Wilkinson (1997) trust reduces uncertainty and risk and also enhances cooperation. Mollering (2002) and Lane (1997) have showed that, trust and co-operation crucial in enhancing stability, predictability and reducing uncertainty in business relations.

5.2.3 Role of Joint and Collective Actions

An important function performed by the inter-firm relations, especially horizontal relations is the mobilisation and pooling of resources achieved through joint and collective action involving a number of producers’ organisations comprising SHGs and co-operatives. One of the outcomes of these joint and collective actions is the collective efficiency (Schmidt 1995). Previous researches (Gulati and Singh 1998) have established that, a reduction in cost of inputs and marketing costs could significantly
improve the performance of firms. In their study, Gulati and Singh (ibid) attribute this possibility of cost reduction as a result of joint efforts and various inter-firm dependencies. Nadvi (1999) attributes the increased collective efficiency in the Sinus-valley shoe cluster to the inter-firm co-ordinations and joint action within horizontal linkages. Similarly, Schmitz (1995), Rabelloti (1997), Kennedy (1999) also underline the importance of joint actions in firm’s performance.

The results from this study corroborate the findings of the previous researches. It could be inferred that, as a result of pooling of resources, sharing of facilities and sharing of information and knowledge among the members, the joint and collective actions in the value chain leads to collective efficiency and collective learning. Both the horizontal and vertical relations are found to be vital in transfer of information, knowledge and skills along the value chain. The collective efficiency could lead to improved performance of the firms and making the products competitive. Mesquita and Dagnino (2010) highlight the importance of horizontal and vertical relations in accessing collective resources.

Another important outcome of joint and collective action is the collective learning. This study provides evidences on the role of inter-firm relations on achieving collective learning through sharing of information, knowledge and skills. As evident from the study, horizontal and vertical relations are instrumental in facilitating access to information, training and design services along the value chain as these are embedded in buying and selling relations. Similarly, in the horizontal relations, the market information obtained through participation in national and international trade-fairs are disseminated to the producers, by their organisations. Access to information and knowledge has implications for firm’s performance. Nadvi (1999) attributed the increased exchange of information and experiences in the surgical cluster in Pakistan as one of the factors improving the performance of the firms in the cluster.

5.2.4 Role of Lobbying and Advocacy

The study provides insights on the role of advocacy and lobbying, an important outcome of horizontal relations achieved through forging collaborative relations with producer organisations and exporter’s association aimed at improving the facilities and infrastructure and influencing policies. Interview with the producers as well as the representatives of the producer associations confirm that, the relentless
lobbying by association of exporters and producer organisations has persuaded the government to declare Kannur district as one of the centre of excellence in handloom export in the country; also helped to establish a design studio within the cluster with support from the Ministry of Textiles and establishment of national textile park in the district. These are important for improving the performance of the firms in the cluster. With regard to the role of advocacy and lobbying in improving the performance of the firms in clusters, the findings from this study corroborate with the findings of previous researches (Stockbridge et al. 2003) in which it was reported 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. Scott (1994) also observes similar inter-firm co-ordination in jewellery cluster in Los Angles and Bangkok and attributes their ‘collective activism’ as source of greater dynamism of the cluster as reflected in a series of joint actions for resource mobilisation, infrastructure creation, information sharing etc.

5.2.5 Chain Governance and Locus of Power in Governance Relations

Drawing insights from governance literature, this study analysed the governance relations in the value chain. The present study highlights two governance patterns in the handloom value chain: arm’s length market transactions and quasi-hierarchical. As revealed from the interview of buyers as well as suppliers, the buying selling relation in the local market is mostly governed by trust, indicating the importance of relational governance. The interviews confirm that, this trust based relations play an important role in stabilising the business relationships and facilitating sharing of knowledge and information along the value chain. Most existing studies on relationship between governance and performance of firms have well established that value chain governance importantly affect the generation, transfer and diffusion of knowledge (Gereffi et al., 2005).

One of the primary focuses of analysis of governance of the value chain was to determine the precise locus of ‘power’ in the chain. As revealed from the interview of the buyers as well as suppliers, it was found that, the locus of power in the chain is situated in lead firms that have substantial influence in structuring of relationships with its suppliers. The key power dynamics or governance relation is
between the lead firm and their suppliers. The interviews confirm that, the international buyers concentrate on designing and marketing the products and controlling this process by establishing a network of relationships with their suppliers. They use the governance mechanism to manage their risk and obtain their supplies at lowest prices while maintaining quality of products. Some of the indicators of concentration of power in the value chain as revealed from the interviews with the producer organisations relates to deciding the quality, pricing and managing delivery and lead time in production. Interviews with the merchant exporters reveal that, the price, quality and quantity of the products are fixed at the time of entering contract with their international buyers and they need to work on ‘thin margin’ on account of stiff competition in the markets.

The interview with the managers of the co-operatives confirms their weak position in negotiating the business deals with their buyers, since their buyers always tries to keep the price at the lowest. Similar observation is made by Morrisey and Pittaway (2006). They argue that, small firms are inherently in a weak position within relationship governed by asymmetry of power relations. An important finding of this study is that, in the absence of power, the firm use trust based relations for co-ordinating the buyer-supplier relations.

These power asymmetries have positive as well as negative implications for firm’s performance in the value chains. At one end, the extreme concentration of power in the lead firms could lead to captivation of the producers in the hands of the powerful lead firm limiting the freedom of small firms in their operation. Hence it is important that, the power relations in the value chains are structured in such a way that it is beneficial both to the buyers as well as the suppliers. At the other end, the power could be positively used for explicitly co-ordinating the activities of its supply chain to build capacities of the producers and to increase quality. The study provides evidences on this aspect of buyer’s co-ordination of the activities of the value chain through fixing up of the quality standards, and ensuring the product quality through sharing of design and quality information with the producers down the value chain making use of the strength of vertical relations in the value chain. This co-ordination can be justified considering the general lack of capacities of small firms in generating resources and building their
capabilities. A general understanding among the scholars is that, some degree of governance or co-ordination is required to co-ordinate the activities in the value chain and to pressure supplier to lower costs, increase quality, adopt specific equipment, employ specific business process, purchase inputs from specific vendors, and invest in specific location and reduces risk in transaction and brings stability in relationships (Gereffi et al. 2005).

5.2.6 Role of Inter-firm Relations in Upgrading

One of the key objectives of the study was to understand the upgrading practices in the value chain. The analysis also focused to understand the link between inter-firm relations governance and upgrading practices. This study viewed upgrading as the acquisition of capabilities that eventually improve the performance of the firms. The study shows that, the firms in the value chain are upgrading along two lines: quality and price as reflected in a series of firm level as well as sector-wide upgrading practices along the value chain. At firm level, the most common upgrading practices found to be product, process and functional upgrading and these upgrading practices are achieved by making use of the collective strength of the producers in the value chain. The buyer’ role in linking the producers to the final markets and their assistance in upgrading has been acknowledged in the producer interviews. Although the study does not cover the buyers in the terminal markets, through the interview of the merchant exporters in the value chain, it was able to chart the sourcing decisions of the major sets of buyers in the international markets. In response to the question, what assistance these buyers provide in helping their suppliers to upgrade their process and products, it was reported that, international buyers impart clear signals to suppliers by setting quality, price and delivery targets and checking performance compliance. The interviews confirmed that these standards and specifications, in turn are passed down the value chain through subcontracting relations with the local producers. Interview with the producers confirms the assistance they received from their buyers that include: supply of raw materials, advance payment, design information and information with regard to quality standards. But there is no assistance for training or investment in production facilities. This implies that the buyers are less prone
to provide assistance that leads to process and functional upgrading. Recent researches support this finding (Bair and Gereffi 2001).

The producer interviews confirm the importance of horizontal and vertical relations in upgrading practices in the value chain. A common observation from this study is that, producers working with co-operatives and SHGs are more inclined to upgrading confirming the importance of producer’s organisations in mobilising and pooling of resources and creating common facilities that are crucial for upgrading their production facilities and improving performance. It is found that upgrading practices, especially product and process upgrading are largely influenced by the long term business relationships with the merchant buyers. Particularly, the vertical relations are important in product upgrading since most of the product upgrading is achieved through access to design and quality information that are embedded in the buying and selling relations involving the merchant exporters. The interviews with the merchant exporters confirms that, in vertical relations, the buyers (merchant exporters) share the design and quality information with their suppliers, so as to enable them to meet the quality, price and safety standards required by their international buyers. From the buyer’s perspective, this is very important since it ensure their access to reliable product supplies. During the interview with the producers, most of them reported their interest to work with the merchant exporters, since it provided them regular cash flows and higher margin than that of selling in the local market. The producers also viewed their association with merchant exporters with some prestige, since their products are reaching to the international market through some of these reputed buyers. Another important motivation for the upgrading practices is found to be the desire for market access through improvement in quality and product varieties. As a result, there are consistent efforts, with the support of producers’ organisations, in improvement of quality through training and access to knowledge and information on design and market trends.

5.2.6 Importance of Value Chains in Handloom Sector

Having examined the typologies of upgrading practices in the value chain, the study further explored the link between inter-firm relations, governance and upgrading practices in the handloom value chain.
Previous researches show that quasi-hierarchical chain governance facilitates process and product upgrading (Humphrey and Schmidt 2000). At the same time, quasi-hierarchical chain governance obstructs functional upgrading (Bair and Gereffi 2001).

The findings from this study shows that, since the handloom producers are operating both in local as well as global value chains the firms have maximised overall upgrading: product, process and functional. Product upgrading is common among firms operating in arms length and quasi-hierarchical chain governance and is achieved though making use of their strength of inter-firm relations for making use of knowledge and information embedded in the buying selling relations. It is worth to note that other types of upgrading including functional upgrading are mostly found among firms selling in local markets, highlighting the importance of horizontal relations. Interviews with the producer firms confirm that, the process upgrading is mostly facilitated by forging horizontal relations among producer organisation. As the process upgrading requires investment, these are achieved on the strength of their collective action by mobilising public resources. At the same time, there are no evidences on the buyer’s role in strengthening of the manufacturing capacity of the suppliers, implying insignificant role of vertical relations in process upgrading. The buyer’s assistance is limited to sharing of design and quality information that could best facilitate product upgrading. These differences in upgrading practices found in the value chain lead to conclude that, upgrading practices are influenced by governance types.

The quasi-hierarchical governance leads to product upgrading but only limited process upgrading. The functional upgrading found in the quasi-hierarchical chain is limited to the production of made-ups only; whereas, the functional upgrading in among the firms selling in the local markets involves branding initiatives, marketing and production of value added products. As revealed from the interviews with the secretaries of the producer organisations, the degree of functional upgrading found in the value chain are mostly attributed to the desire for competing in the local market. It was revealed that, having a brand; own design and marketing strategy equip them to compete in the market. From their point of view, the quasi-hierarchical governance relations limit their capacity to compete in the
local market since, in most cases they are prevented to use the design and technical information supplied by the merchant exporters for making products for the local market. From producer’s perspective, the horizontal relations assumes significant role in achieving functional and process upgrading since most of these are attained through forging horizontal relations and strength of their collective effort in mobilising public resources. A general view from the interview with the secretaries is that, investing in functional upgrading can create valuable development options for them through finding new buyers and penetrating in the local market with its own brands and designs and marketing strategies. The limited functional and process upgrading in quasi-hierarchical governance structures is attributed to the fact that, the lead firms are reluctant to share key competencies need for independence of firms in the local market.

This study highlights the importance of horizontal relations in the upgrading practices in the handloom value chain. It is worth to note that, the most of the upgrading practices among firms operating in local value chain are achieved through the collective effort of the firms in the cluster, rather than as a result of assistance from their buyers. The arm’s length market transaction has very insignificant role in sharing of information, knowledge and technical assistance in buying selling relations. In fact the degree of functional upgrading among the firms operating in the local value chain is attributed to their desire for competing in the local market.