

CHAPTER 6

CONCLUSION, POLICY IMPLICATIONS AND LIMITATIONS

Having discussed the key findings of the study in the previous chapter, this chapter provides conclusions based on the key findings and discussion. This is followed by the scope and limitations of the study, policy implications and future direction of research.

6.1 Theoretical Contribution

This research makes two specific contributions to the broader literature on value chains. First, it provides a general framework for analysing the process of integration of small enterprises into productive markets in the handloom sector. Drawing insights from global value chain clusters and related literature, the framework shows the inter relationship between three key elements of value chain: inter-firm relations, governance and upgrading that are critical for facilitating the process of market integration of small firms.

Second contribution is that, the study provides insights on the structure of value chain and corroborates the role of inter-firm relations, governance and upgrading in facilitating market integration of small firms. The study confirm that, a close and healthy inter-firm relations grounded in trust enhances co-operation, joint and collective actions among the firms in the value chain facilitating sharing of information, knowledge and skills leading to collective efficiency and improvement in the performance of the firms. Inter-firm relations grounded in personal relations and trust is also found to be critical for bringing stability of relations and reducing risk in transaction.

The study confirms the role of governance of inter-firm relations in firm's performance. Governance

has a critical role in reducing risks in transactions and bringing stability of inter-firm relations. It was found that, the chain governance involving quasi-hierarchical relations, characterised by concentration of power skewed towards the buyers or lead firm, allow them to explicitly co-ordinate the activities of its supply chain. The concentration of power allow the firms to pressure its suppliers to lower costs, increase quality, adopt specific equipment, employ specific business processes, and purchase of inputs from specific vendors. From producer's perspective, as the power is concentrated among the buyers, it is found that, buyer's monitoring of the compliance to the standards and quality is compelling them to improve the quality of products and working environment including cleanliness, adopting safety measures in handling hazardous materials, affluent treatment and adopting ethical practices leading to several firm level upgrading practices.

Based on the evidences from the present study, it could be inferred that, the producers in the handloom value chain are upgrading along two dimensions involving price and quality. Upgrading is influenced by a host of factors involving an assured market for the products, higher margin in the sales, reduced transaction costs and reduced risk in transactions and mobilising public resources through collaborative efforts. Most of these are achieved through forging both vertical and horizontal relations. From the producers' perspective, the long years of business relationships with their buyers, support services from the buyers, advance cash payment and assured market are the major motivations to work with the buyers and adopting upgrading practices. But, there is no evidence on the buyers' investment in the upgrading practices. As the process and functional upgrading requires investment, these types of upgrading are achieved through forging horizontal relations through collaborative activities in mobilizing public resources and lobbying and advocacies aimed at the development of the sector. These evidences leads to conclude that, operating in quasi-hierarchical chain helps local producers to get on rapid product upgrading, but makes it difficult to progress into design and marketing function of the chain, similar to the findings of the previous researches (Navas Aleman 2011).

6.2 Policy Implications

This research assumes certain policy significance in the context of small enterprise development in the handloom sector. The current policies for small enterprise promotion are centered on cluster development following the UNIDO's cluster development approaches. The policies aim at provision of support facilities and creation of infrastructure facilities following a group approach. Although the cluster approach brings efficiency, the cluster development approaches have been criticised on several grounds. First, its focus mainly of local sources of competitiveness derived from within cluster horizontal and vertical relations. Second, it neglects the importance of external linkages. This necessitates a change in the policies for small enterprises that is based on the cluster development approaches.

Scholars argue that, external linkages assumes greater role in the context of globalization (Pietrobelli and Rabellotti 2006). It is in this context, value chain interventions become relevant. Value chain approach is increasingly applied in facilitating integration of small firms into global value chains. Integration of small firms into global value chains is viewed as one of the key drivers of improving their competitiveness. Core to this is adopting a market led approach (Jones, 2011).

Further, integration of small firms in the high value/global market is viewed by policy makers as a means of conferring economic benefits to a large number of small producers. Recognising the importance of enhancing the role of small firms in global value chains, adoption of a liberal approach for their integration into global value chains already exists as part of the interventionist measures. These are manifested in the creation of a host of new initiatives aimed at supporting small firms to engage in global markets. These initiatives are underpinned by the view that the integration of small firms augers well for their ability to compete successfully in the global markets.

Small firm's integration into global market can be influenced by a host of factors including quality of inter-firm relations, governance and upgrading practices. Strengthening of inter-firm relations and improving governance structures is paramount to market integration. The research highlights the need for improving the inter-firm relations and governance structures. In most cases, these are achieved through improvements in the systems and structures in which the role of facilitating agency is

paramount. The organisation could also help to reduce the imbalance in the governance relations providing much bargaining power to the small producers.

Hence, it is imperative that, policies for small enterprise promotion from a value chain perspective should focus on strengthening of inter-firm relations and improving the governance structures. In the contest of small producers, producer's organisations play a critical role on these two fronts: building horizontal and vertical relations in the chain, particularly benefiting the producers through enhancing co-operations and collective strength for mobilisation and pooling of resources, access to information, BDS and access to terminal markets. Producer organisations could also play a critical role in building external linkages facilitating flow of information and knowledge through the links with the upstream market. The research also highlights the importance of investment in infrastructure in terms of common facility centers that would trigger a series of upgrading practices along the value chain. Hence the approach to small enterprise development need to recognise the importance of sector-wide upgrading.

6.3 Scope of the Study

The scope of the study was to understand the process of integration of small-scale handloom producers into productive markets. The study focused only three main elements of value chain integration such as inter-firm relations, governance and upgrading practices.

6.4. Limitations

A major limitation of the study is that, it is confined to only one category of enterprises namely, small-scale handloom enterprises located in one geographical cluster. This limits the generalization of the findings of the study. Another limitation is that, the study focused only three main elements of the value chain namely, inter-firm relations, governance and upgrading. Value chain integration might be influenced by other factors such as policy initiatives, legal environment and the end market characteristics as well. These are out of the purview of this study. The study is also constrained by the availability of time and resources constraining the inclusion of a variety of enterprises in different geographical locations.

6.5 Directions for Future Research

While this research study has contributed to the understanding on the structure of value chains and its implications for their integration into productive markets, a lot more is to be done to have a comprehensive understanding the importance of value chains in small enterprise development. Most of the studies in value chain focus on governance and upgrading practices and provide evidences on the successful integration of producers into global markets.

An important area of the future research could be on inclusive value chains exploring the impacts of integration of the smallest producers into the global value chains. It is important to understand both the enterprise and household level impacts of integrating small firms in the market. Most of the studies have focus on impact at enterprise level. Knowing what impact it has created at the household level in term of improvement in income and reduction in poverty is of academic interest.

Another area that remains unexplored is the Business Development Services (BDS) market development. BDS is an integral part of value chain development. Hence, scientific studies are required to understand how the small scale producers access to quality business services.

Along with BDS, value chain finance is another area which needs to be further explored. Access to finance is important to organise the activities at various stages in the value chain. Value chain competitiveness depends on timely availability of finance at affordable terms and conditions.

The economic upgrading is reasonably attempted in the recent studies on value chain. Social upgrading found to be one of the areas that remain unexplored in the literature. It is important to understand what impact does the integration of the small firms into global value chains on improving the working and living conditions of the workers.
