ABSTRACT

Purpose: This research study aimed at understanding the process of integration of small scale handloom enterprises from Kannur district in Kerala into productive markets. Literature on global value chains argues that, integration of firms into global value chains provides them opportunities for improving their competitiveness. However, the process of integration of small producers in to global value chain has not been a subject of extensive research in India. Although some works have been done to define and conceptualise the idea, how value chain development and similar programmes work for the poor, the concept is still in its evolution. The present study contributes to fill this gap in the literature.

Design/Methodology/Research approach: The study adopted a case study approach. The study used a conceptual framework incorporating three key elements of value chain, i.e. inter-firm relations, governance and upgrading that are critical for facilitating the process of market integration. Drawing data from in-depth interview of managers of producer organizations, exporters and BDS providers, and producers, this research study sought answers for the following questions: i) what are the nature and functions of inter-firm relationships in the 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 value chain?; iii) how do power relations in the 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?

Findings: The study provides evidences on importance of inter-firm relations, governance pattern and upgrading practices in facilitating the process of market integration of handloom enterprises. One of the key focuses of analysis was to understand how inter-firm relations facilitate or hinder the process of market integration. The findings showed that, the firms in the value chain are linked together through horizontal and vertical relations involving interactions with producer’s organizations comprising co-operatives, SHGs, and association of producer organizations and through buying selling relations along the value chain comprising input suppliers, BDS providers, consumers, buying agents etc. 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 organizations and individual weavers working from their homes and linking them with international markets.

A subset of the first research question was to examine how the inter-firm relations facilitate or hinder firm’s integration into productive markets. With respect to the above question, the study provides evidences on the role of inter-firm relations in mobilization and pooling of resources, joint and collective actions, lobbying and advocacy. The producer’s organization facilitates collective mobilization of resources and creation of facilities for production and marketing of the products. Joint purchase of resources through producer organizations and joint marketing of products through participation in trade-fairs and exhibitions provides scale economies and reduction in costs. A reduction in cost of inputs and marketing costs
could significantly improve the competitiveness of the firms. The study found that, horizontal and vertical relations in the value chain provide external economies in terms of access to information and training. The merchant exporters make use of the skills and craftsmanship of the weavers in the co-operatives in joint product development. Along with the mobilization and pooling of resources, joint and collective action, another important function performed by the inter-firm relations comprised advocacy and lobbying. The analysis showed that, the relentless lobbying by the association of producer organizations and exporters has facilitated a series of sector-wide and firm level upgrading practices along the value chains.

The second and third research questions aimed at to understand the pattern of governance of the value chain and the link between the governance and upgrading practices. The fourth research question examined the incentives and risks for the firms in upgrading. One of the arguments related to governance is that, governance influences the dynamic distribution of power, learning, and benefits among firms in a value chain. Governance reduces risks in transactions and also facilitates the sharing of information along the value chain. Two governance patterns have been identified in the value chain namely, arm’s length market relations and quasi-hierarchical governance. It was found that, the arm’s length market transactions has less significance in sharing of information or affecting upgrading practices along the chain. On the other hand, the quasi-hierarchical relations assume significance in sharing of information and reducing risk in transaction along the chain. As evident from the study, power is concentrated among the buyers that are reflected in their ability to enforce compliance to quality standards and terms of trade down the value chain. The
concentration of power in buyers allow them to explicitly co-ordinate the activities of its supply chain and to pressure its suppliers to lower costs, increase quality, adopt specific equipment, employ specific business processes, and purchase of inputs from specific vendors. The present study highlights that buyer’s monitoring of the compliance to the standards and quality is compelling the producers to improve the quality of products and working environment including cleanliness, adopting safety measures in handling hazardous materials, affluent treatment etc.

One of the research questions was to examine the link between governance and upgrading practices along the value chain. Evidence from the study reveals that most of the product and process upgrading is found in the market chain characterized by quasi-hierarchical governance. Whereas most of the functional upgrading was found in the market chain involving arm’s length market transactions. The absence of functional upgrading in quasi-hierarchical value chain could be explained on the basis of the reluctance of the lead firms in making investment to develop the capabilities of the producers. This finding corroborates the findings from the previous researches that, quasi hierarchical governance facilitates fast product and process upgrading and obstructs functional upgrading. Interestingly, most of the sector-wide and firm level upgrading is achieved on the strength of horizontal relations. From the producers’ perspective, the long years of business relationships with their buyers, support services, advance cash payment and assured market are the major motivations to work with the buyers and adopting upgrading practices. This finding confirms the argument that producers entering in quasi-hierarchical chain have good prospects for upgrading their process and products.
Originality and contribution: This research contributes to the broader literature on value chains. It makes two specific contributions to the understanding on the role of value chains in small enterprise development. First, it provides a general framework for analysis of the process of integration of small firms into productive markets. Second contribution is that, the study provides insights on the structure of value chains and provides evidence on the importance of inter-firm relations for improving the competitiveness of small enterprises. It is found that inter-firm relations provide a means to improve competitiveness of small firm through achieving scale economies, reduction in transaction costs and sharing of knowledge and information along the chain. The study highlights that, the governance of inter-firm relations have a critical role in facilitating firm’s integration into productive markets particularly in reducing risks in transactions and sharing of information.

Practical Implications: This research assumes certain policy significance in the context of small enterprise development in the handloom sector. 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. 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.