8.1 Discussion of the Propositions through Integration of the Evidence

Mixed method research has been called the third methodological movement by Tashakkori and Teddlie (2008) in the social and behavioral sciences, joining the quantitative and qualitative research alternatives. Though it is still in the formative stage and there are a number of ongoing debates within the field over issues like basic definitions, research designs and how to draw inferences in mixed method research, it has become well established, with many followers and journals devoted to it.

An important issue that arises is what does mixed method research offer that quantitative and qualitative research methods can’t offer independently? Those advocating for the method describe the development of ‘meta inferences’ about the phenomenon under study that is achieved by addressing both exploratory and confirmatory questions, and gathering enough evidence that enables answering both perspectives of the study.

Tashakkori and Teddlie (2008: p 101) describes a ‘meta inference as “an overall conclusion, explanation or understanding developed through and integration of the inferences obtained from the qualitative and quantitative strands of a mixed method study”.’

They describe the importance of an ‘integrative framework’ (p 105) for making validity claims for mixed method research. The integrative framework
seeks to distinguish between inference quality (an attribute of the process of meaning making and/or its outcomes) and data quality (attribute of the inputs to the process of meaning making).

8.1 Discussion of the Propositions through Integration of the Evidence

8.1.1 Firm, Relational and Resource Based Rents are Significant to Manufacturing Export Firms

Survey results: An examination of the survey results regarding what the initial factors were that enabled firm success reveals the following: a strong predominance of firm based factors and product related factors in the initial stages of export marketing. The personal contact between buyers and firms was enforced through personal visits, or the use of samples shown to buyers, by firm proprietors themselves or the firm’s own agent.

Could this have led to the predominance of the relational rents that are seen through the case study evidence and survey results? Personal contacts at the early stage of export generation between buyers and sellers not regulated through the use of third parties or agents, leads to trust being established in the relationship. It leads to a dependence that goes beyond the fulfillment of an order. The supplying firms take on the role of advocacy. They are so involved in the next season’s sample generation and design development process that the firm’s work is centered on this activity. This is seen from the evidence. Relational rents both up and down the chain, expressed through the multiple manufacturing methods, the suppliers of other processes like tassel fitting or mat weaving, the specialized activities taken up, enables the producer firms to provide a range of finishes, highly variable products, vastly different quality offerings and responsiveness- this enables providing very different offerings to different buyers, but the ability to do so with the sourcing skill and organizational capability of a uniform work process that needs to be customized for specific orders. Relational rents are thus very significant to manufacturing export firms.
The survey evidence reveals a predominance of firm related actions and fabric/product related strengths that drove the industry in the initial stages.

**Case study evidence:** In trying to understand the nature of the industry through the case study evidence, the following aspects can be inferred:

1) The home textile business is clearly driven by the relational rents that are seen both up the chain with the buyers, and down the chain with the second tier producers and other support organizations.

2) Resource based rents which were based on aspects of the product like handloom origin, quality of dyeing and weaving and the inherent ‘heaviness’ of fabric, which lent itself to furnishing and upholstery needs were significant in developing a market for the products from the region, which otherwise had no organized or collective government or policy related backing. The innovative fabrics from the region immortalized in ‘Kannur crepe’, ‘mission mundu’, and kora or calico bears testimony to the localized skill and inherent geographical advantages like softness of water. The extended yarn processing technique inherent to the region and wet dye process are endemic to the region, and sadly, are no longer considered crucial to the export trade from Kannur.

From a combined perspective of the survey and case study it can be said that inherent strengths of the region related to the water quality, processing and dyeing operations, as well as the weaver skills which at the initial stages were instrumental in building up the handloom furnishing industry are no longer sources of rent that are dynamic, or enable systemic competitiveness. A continuous and ongoing depletion of natural soft water sources, combined with a decreasing dependence on the wet dye process has decreased the benefit of this. In fact the dyeing process shifting out of the area to dye houses in Tamil Nadu, shows that dyeing, as a value adding process, is no longer dependent on the water or dyes used. Ability to centralize the operation, carry out the dyeing at economical rates, and having the
environmental compliances needed for dyeing—these were the new necessities for the highly regulated textile trade. This was being taken up efficiently by firms out of the cluster and as a result, it was no longer a capability. As most of the firms were following the same process, it was not a source of rent for the region. By these factors alone manufacturing export firms of home textiles cannot claim to have high road growth paths.

3) Within the firm, technological advancements, the use of the TUF, investing in large scale of operations, or high end machinery has not been a priority. Firm S was an exception to this scenario. Did it improve the firm output significantly?

The firm S spoke of the need to reduce the variability of orders and increase scale through larger orders to get the benefit of this additional investment. They felt that an increased spend in the dyeing capabilities of the firm was required, to truly benefit from the use of the rapier loom.

4) The other endogenous factors such as the human resource capabilities, the organization of work and the marketing rents appear to be invaluable to firm success. The employee loyalty at higher levels of the chain, the trust between and within the chain members, both within the organization and with other chain members especially down the chain, among secondary suppliers has enabled customization to be built into the order delivery mechanism. The knowledge of current product and process standards, the mechanism to ensure buyer’s legislative governance requirement is met and the use of several sources of production, to carry out orders of different variety and scale is a capability that enables firms to have more bargaining power in the relationship with the buyer.

5) The organization of work or the process by which orders are carried out, from the development of the sample, to the final shipment of orders calls for coordination of a set of activities. These are not mechanical processes that involve making a product that the buyer designs and specifies, but has a
design component, and the utilization of sourcing abilities that are pooled together to obtain results.

6) Marketing as a source of rent is significant. This can be related to the nature of the relationship that firms have with suppliers. The use of fairs as a method of sales promotion is actively and regularly carried out with the objective of meeting new buyers, or developing new markets since the case study firms recognize that traditional markets are saturated. There appears to be no barriers to supplier firms seeking out customers or prospects, and the aim of the firms is to create a display at stalls that emphasizes the innovativeness of their products. A strong drive towards this goal is seen in all marketing related actions. The ability to actively search for markets is enhanced by the thrust on the research and development based activities as a source of rent. New product development is a cornerstone of their activities and this is enhanced by the demands of the buyer segments that they serve.

7) From the case study evidence the external or exogenous sources of rent such as the policy support schemes or financial aid, or the use of specific organizations to aid the sector has not been highlighted. In fact an apathy towards the needs of the home textile industry was suggested by several respondents and in general interviews. These rents are constructed outside the corporate sector and are generally reflected in state or central government actions that are outside the purview of individual firms. There was a marked preference to promote the production, market promotion and product development strategies of the cooperative societies, while there was not enough thrust on development of the industry that was entrepreneurial in its roots and established long before export of any kind was actively done from the country. An increased policy thrust at the initial stages of development, or greater organized action to mould policy initiatives towards their interest at the embryonic stage of the industry would have changed the industry fortunes. In this mature industry stage with many traditional export
markets saturated with competitors, policy action, of any kind, can be easily undermined.

8) The industry has benefited from the endogenous rents. These are generated by individual firms. Though new technology to increase scale or variety of products produced has not been actively taken up by the firms (firm S is an exception) the establishment of an integrated textile park (ITP) in the district commissioned in 2005 and finally opened in 2010 bears testimony to the fervent need of the exporting community to increase scale, to pool or combine certain cost intensive operations like dyeing and water treatment and to expand their industrial infrastructure.

In an examination of the present factors that firms felt were instrumental to success, factors like the management of work flows, sourcing expertise and timely delivery were very important, as was the dyeing and weaving strength. It is seen that there is a changing emphasis from product centered aspects such as innovative fabrics, and handloom origin, to process related benefits that buyers needed.

The survey also shows that the use of government incentive for exports, cash incentives or supported fair participation was considered unimportant to firm success. The off take of government schemes may not have been promoted much in the initial stages of export. An inward looking policy was followed in the early years, with import substitution being the by word. A true thrust towards an export oriented policy began only after the liberalization of the economy. This may have affected the extent to which firms made use of the government sponsored practices to promote export marketing.

From the discussion of the meta inferences, the firm based and relational rents are significant to the manufacturing export firms, but the resource based rents represent a dissipating source of rent.
8.1.2 Legislative governance is more significant to firms than judicial or executive governance

Case Study Evidence

1) In examining the case study evidence the importance of the act of governance is highlighted. Humphrey and Schmitz (2008) describe that this does not always occur in value chains. In arms length markets, for example a firm may make a product according to its own estimation of demand, using a design that has no inference to a particular product. This may be for a standard product, and using production facilities it selects or develops. Though it happens, it is made possible by the role of intermediaries who facilitate flows of information about supplier capabilities and innovations and about buyer requirements (Spulber, 1996 cited in Humphrey & Schmitz, 2008)

2) Among manufacturing export firms in Kannur the question about what is governed is clearly set by supplier firms themselves, when dealing with their second tier manufacturers, or by buyers. This is when the governance originates within the chain. In some cases governance originates outside of the chain, through internationally accepted standards, through regional standards (rarely), private and mandatory standards like retailer specifications or legally binding market access agreements or through external agents like NGOs or watchdog organizations like Oxfam.

3) The case studies reveal a clear prevalence of ‘what is to be produced’ and how much is to be produced, but less emphasis on ‘how it is to be produced’, though aspects of quality systems, labour standards and environmental standards are emphasized. The rules regarding actual production processes to be followed, or technology to be used are not seen to be specified as hard and fast rules.

4) The case study data about governance reveals a strong predominance of product and process parameters. This helps to control risk (Humphrey and
Schmitz, 2008). Product quality is linked to process controls, to provide assurances through developing quality procedures. This is especially true in mechanical or technically linked industries.

In industries which rely on brand, reputation, retail presence, or are highly risky (food based or child related product areas), the importance of parameter setting in the case of products and processes is vital. It means that buyers must supply both process and product specifications to suppliers and introduce systems that ensure products and processes meet the required standards. If this gap between what firms are capable of delivering and what they are expected to deliver is high, buyers need to invest in a few selected suppliers and help them to upgrade (Humphrey & Schmitz, 2008). This was first highlighted by Keesing and Lall (1992) who argued that producers in developing countries are expected to meet requirements that frequently do not apply to their domestic markets. This creates a gap between the capabilities required for the domestic market and that required for the export market and may lead to increase in the monitoring and control required by buyers (Gereffi et al, 2005).

Why is governance necessary? To understand this, it is necessary to consider the changing nature of international trade and industrial organization. Gereffi et al (2005) state that the activities that a firm carries out is dependent on what technology is combined with labour or material inputs, and how processed or modified inputs are assembled, marketed or distributed (Kogut, 1985, cited in Gereffi et al, 2005).

The important aspects that firms decide on relate to which activities and technologies are retained by firms in use, or which are outsourced to other firms and where the various activities should be carried out.

Product and process parameters can be set by firms within the chain (or by agents contracted for the purpose by these firms, or by external agents. How these parameters are adopted also needs to be examined. In the first case
lead firms or dominant buyers may expect certain quality norms to be followed by suppliers. These are specified by dominant firms themselves. In this case lead firms or their agents have to verify this.

In the second case lead firms are required to conform to a process standard or code of practice for which an independent monitoring or certification system exists. Example of this is the ISO 9000, ISO 14000 and SA 8000 Standards. This may be checked for correctness of adoption by the lead firm itself, or by external agents who independently check and monitors the degree and correctness of adoption.

In the third case, lead firms may set or specify quality systems or usage norms, about the use of child labour, or specific conditionalities, but do not directly involve a monitoring mechanism. Firms have to develop their own monitoring system. In the final case parameter monitoring and enforcement is dictated by independently monitored process standard or code of practice. This means products or process of the supplier must be certified as conforming to ISO, SA, or ISO 14000 but certification is done by independent agencies.

6). Lead firms or buyers are constantly trying to reduce the cost of direct monitoring and shift towards a process of external certification. This becomes possible only when the parameters are widely applicable and have credible means of external monitoring and enforcement (Gereffi et al, 2005). It is seen that on introduction of labour standards, or new process parameters, they are initially enforced by lead firms. As standards become more generalized, external systems of enforcement develop.

7). Legislative governance measures seemed to cover the whole gamut of standards from the ISO 9000 to environmental compliances, to SA 8000 Standards and government specified factory act based standards. But did buyer firms themselves involve in enforcing these standards?
The case study firms never mentioned buyers involved in quality enforcement, though they visited the suppliers premises at least twice a year. This means that enforcement was taken up usually by independent monitors, enforcement agencies, or third parties. Independent monitors may be agents external to the chain, like government agencies, and the monitoring processes are also in their hands. Private voluntary standards developed by groups of enterprises may be used to introduce and enforce particular parameters for production across a broad range of suppliers, e.g. British Retail Standards, European Flammability Standards and REACH standards, to name a few. Regional standards are used as a form of product differentiation and collective branding. BSCI standards which were adopted by firm M may have been done to improve its acceptability to European buyers. An important aspect mentioned by all firms was that state government agencies were very prompt and regular in enforcing the government regulations.

If production is carried out across varied geographic space and between firms, the control of these fragmented activities and their coordination becomes important. The different types of value chain relationships may be explained by this aspect.

Gereffi et al (2005) relies on three explanatory variables to describe the type of chains that exist in value chain relationships:

a) The complexity of the information that needs to be transmitted between different actors in order for the transaction to be successfully completed.

b) The extent to which this information can be codified and therefore transferred efficiently and without investment in transaction specific relationships and

c) The level of supplier competence in relation to the requirements placed upon them.
In response to the questions about how cross border production is coordinated, across companies and between countries, the role of governance is imminent. The extent of how much governance and for the control of which aspects, is often dependent on three factors mentioned above.

9) Transaction asset specificity: Williamson (1975) cited in Gereffi (2008) is used to explain the differences in how trade is organized. According to him, when assets or investments are specific to particular transaction, then more complex inter firm relationships must occur. The more customized the product or service, the more likely are transaction specific investments required to be made by buyers. This also leads to greater interaction and greater coordination between inter firm relationships. This increases transaction costs. An example can be seen when complex designs for the next season’s release are planned at the supplier premises. For the major buyer of firm H planning for the season’s release is a complex exercise, involving travel of design staff or technical staff from the UK, a period of intensive design development in supplier premises with their supplier’s own quality control and supervisory staff, to produce samples of the proposed fabrics at an external location (cooperative society) that is vertically integrated into their suppliers organization, but where design development is carried out with great confidentiality and the stringent quality.

10) This seems to ascribe to the statement in Gereffi et al (2005) about how greater coordination leads to more transaction costs:

..non standard inputs and integrated product design architectures involve more complex transfers of design information and therefore intense interactions across enterprise boundaries. Integral product architectures are more likely to require non standard inputs and changes in the design of particular parts tend to precipitate design changes in other areas of the system (Fine, Langlois and Robertson, 1995 cited in Gereffi et al, 2005, p: 23)
Gereffi et al (2005) say that coordination or mundane transaction costs arise when value chains are producing non-standard products, products with integral architecture, and products whose output is time sensitive.

11) Humphrey and Schmitz (2008) state that transaction specific investments and the incumbent transaction costs they entail can be achieved without direct ownership of the facilities that provide this. Standard products that require no complex information exchanges can be transacted through arm’s-length market transactions. In the case of non-standard products the instructions and information needs to be codified. This enables competent suppliers to meet supply chain needs. If not codified or tacit knowledge extended interaction and complex interactions are required.

12) The ability to supply customized products without complex interactions becomes possible when information is codified and communicated easily. Though each product is specific to the customer, instructions on how to make it are relatively easy to transfer, and suppliers can enter and be taken out of value chains according to the product need.

13) Relating this to the degree of governance is important. In many markets which depend on product differentiation to sell their products, it is important that lead firms set product parameters. For producers who rely on differentiating products from those of competitors, and are which are from industries which are strongly affected by seasonal changes or fashion trends, the importance of parameter setting is high. In such situations buyers own designers may provide the overall design instructions, or detailed design. In many cases the particular product may be part of a broader product differentiation strategy which involves matching a variety of accessories, then the buyer has a greater coordinating role (Humphrey & Schmitz, 2008). This is particularly seen in the home textile industry which is also fashion based.
14) An examination of the organization of work suggested by case study firms and in an assessment of the role that the buyers play revealed the following aspects: lead firms increase complexity when they place new demands on the value chain, such as when they seek just in time supply or increase product differentiation. But they also adopt strategies to reduce the complexity of these transactions by the development of technical and process standards. This allows the codification of information and enables the development of a fluid and flexible network structure. Differentiation becomes enabled by a set of unambiguous and widely accepted parameters that may be defined by public or private institutions that set standards or grades. Process standards and certification of quality, labour and environmental outcomes also perform the function of conserving human effort, through the use of system elements or modules- this is demonstratable in an examination of the organization of work. Silk embroidery is carried out at Bangalore, hand embroidery of fabric or children’s apparel at Kochi, tassel fitting at Wadakara, mat weaving by Star weaving works, voile sourcing from Tamil Nadu, fabric treatments in out of state location. A gamut of very different and item or product specific activities, that may or may not be needed for specific items is at hand for firms to use if deemed necessary by companies, or dictated by buyers. Gereffi et al (2005) calls this value chain modularity, where suppliers and customers can be easily linked and delinked, resulting in a very fluid and flexible network structure. A large volume of non price information flows across the inter firm boundary, but in a codified form. This is enabled through the unambiguous and widely accepted parameters.

15) Supplier competence is also dynamic because it varies according to the value chain needs. New demands or requirements about products can be learned or acquired through associating with buyers who demand specific abilities or activities to be carried out by suppliers. New requirements or changing needs of the market may cause some activities to become
redundant, while new skills or abilities need to be built up. In such cases buyers may have to invest in a few selected suppliers and help them to upgrade, if the gap between their knowledge levels and what is required is very wide.

16). Case study data have shown a supplier relationship that goes beyond a few years. In most cases the major buyers were those who had been with the company more than ten or fifteen years back. This shows that buyers were confident about the abilities of their suppliers and were willing to invest time and money into their acquiring new skills or abilities or in learning activities that would help them develop innovative products.

**Examination of Survey Data**

1) The survey evidence points to the importance of legislative governance measures in the cluster. The process parameters that are imposed by independent agencies and checked by them are common among the survey firms. Significantly ISO standards are well entrenched. So also the firm’s own standards are seen as acceptable to buyers according to the survey. The water treatment standards set by the state government pollution control board are seen as important sources of governance.

2) The acceptability of firm standards for buyers points to the belief in the capabilities of the supplier. Product and process specifications have been followed for extended periods that complex information flows are no longer costly. In the earlier stages of business development, new requirements of buyers would have led to extended and transaction specific information flows between buyers and suppliers, which were non codified, and thus costly. Over a period of extended order fulfillment these requirements may have become codified and easily transferable over networks.

3) The survey also pointed out types of process standards that were not well entrenched. Environmental compliance on the lines of ISO 14000 was not
seen in the survey, so also the social accountability standards for labour was not seen in many firms.

The adoption of regional standards and industrial consortium based standards which may be created for marketing or for penetration into particular regions was not commonly resorted to by firms in the survey.

4) Judicial governance refers to the methods by which process and product parameters set, either by buyers themselves or by independent monitoring or certification systems is enforced. The survey shows that monitoring and enforcement occurs both within the chain itself (by buyers on site inspection or agents acting on behalf of buyers) or by the use of certifying agencies. Laboratories that independently carry out testing for product specifications on behalf of buyers, also take up the enforcement activities. The state government rules for factory regulations, labour related regulations and environmental regulations are also important source of judicial governance, which is often linked to the sanctions being enforced, in case of non conformance.

8.1.3 Quasi Hierarchical Chains are the Dominant Typology of Chain Seen among Home Textile Manufacturing Export Firms in Kannur

The four kinds of relationships or typologies of value chains that are discussed in value chain literature relate to the nature of chain governance and the kind of upgrading activities one expects to find as a result of the kind of governance patterns.

As mentioned in a different section, the four types of relationships suggested by Humphrey and Schmitz (2000, 2002) are the arms length market relation, networks, quasi hierarchies and hierarchies. Arms length markets are seen when the product is easily standardized and a number of firms can meet the buyer requirements. Switching costs are less.
Networks are those where cooperation and information intensiveness is key. Essential value chain competencies are divided between firms. Reciprocal dependence is commonly seen. Buyers specify certain product characteristics and parameters and would be confident that supplier can meet them.

Quasi hierarchies: this is the typology one expects to find in developing country firms linked to global markets because one firm or the buyer firm exercises a high degree of control over other firms in the chain. They do this by strong governance measures. This means they specify what is to be produced, what processes are to be followed, how much to be produced and when it should be done.

The hierarchy is more of a vertically integrated chain where the buyer takes direct ownership of some operations in the chain. In such cases supplying firms have very little say over what is produced in their premise and how. It is often taken up by the concerned buyer.

The quasi hierarchical chain is most commonly seen in value chains with developing country suppliers. Literature includes the Brazilian shoe cluster (Navas aleman & Bazan, 2002) and the Taiwanese computer cluster (Kishimoto, 2002). Gibbon (2000) describes how clothing manufacturers in Mauritius were involved in such chains while Quadros (2002) described the state of the Brazilian auto parts industry.

Humphrey and Schmitz (2003) drawing from the literature stated above describes how developing country firms were mostly entrenched in quasi hierarchical relationships. The reasons were: the buyer seeks to define the product and/or the buyer is exposed to considerable risk if suppliers fail to perform. The same explanation of the need for product definition – this is through buyer specification of the product. He understands the demands of the market and may use product differentiation as part of the competitive strategy. Design and branding needs mean precise product and process specification needs to be
conveyed to supplier. More control of chain activities is required. Another aspect is that non price factors such as quality, response time, reliability and delivery, concern about safety etc are more important to buyers.

According to the literature developing country firms enter into quasi hierarchical relationships because of suppliers’ lack of knowledge about product and process followed minimum required standards. Buyers otherwise have a need in making the suppliers transactionally dependent on them to reduce the risk of their possible opportunism.

However another aspect that emerges from Humphrey and Schmitz’ (2003 p 18) discussion is that “as capabilities of suppliers improve and diffuse the need for monitoring and control declines”.

**Examining case study evidence**

The case study firms have been involved in meeting product needs of their global buyers for more than twenty years. When one looks at the average length of buyer relationships, they cannot be classified as firms new to the business. They also undertake more activities than are traditionally taken up by firms in quasi hierarchies. Though local producers improve their production processes, attain consistency and high quality and increase their speed of response to customer orders, buyers rarely encourage their supplying firms to develop, design or marketing competencies. This is because it may overlap with their buyer’s competencies (Schmitz and Knorringa, 2000). Even leading export manufacturers for many years refrained from making substantial investment in design and market and were satisfied to remain subordinated. The reason for this was the fear of upsetting their main buyer.

The typology of chain relationship was expected to be a quasi hierarchical one, as seen in other developing countries, but the evidence points to the presence of network like linkages:
1) The case study interviews discussed about the sources of rent revealed marketing activities undertaken by firms as a source of rent. Yearly participation in two or three fairs, with an emphasis on potential markets, use of designers in buyer markets to obtain a better idea of designs and trends, yearly meetings with buyers, emphasis on innovative designs in fair stalls, visits abroad to general and home-based exhibitions show a strong marketing orientation. The interviews revealed that existing buyers did not prevent or resist market development activities of their producing firms.

2) The nature of work organization which was centered on buyer needs for rapid new sample development and speedy action directed towards the manufacture of innovative products and the research and development activities were centered as a source of rent go against the phenomenon of ‘truncated upgrading’ (Humphrey & Schmitz, 2003) common in quasi hierarchical chains. Chiu and Wong (2002, 11), in Humphrey and Schmitz, (2003, 14) described that

….the weakness of local suppliers in marketing and the tight control of overseas buyer distribution are just two sides of the same coin. Underlying this business arrangement is such power asymmetry that a buyer’s approval is always prior to anything done on the part of a supplier, leaving most suppliers with few choices but to take buyer’s orders and sales forecast as the primary source of market information. Information asymmetry of this kind helps explain why a local supplier is prone to get locked into the subcontractor role.

3) This was not seen among the case study firms. Tight control of market conditions, or information asymmetry did not seem to mar their prospects as their frequent fair visits, personal buyer contacts and strong emphasis on innovation in sample development, particularly for fairs was a proactive and market seeking orientation. Though the buyers exercise a high degree of control over other firms in the chain, specifying the characteristics of the
product that they want produced, they do not concern themselves over the
processes or technology to be followed and the controls to be put in place to
ensure product and process parameters are followed. Neither did they
restrict the supplier firms from negotiating with other buyers. Many new
suppliers in the country were introduced to the buyers for specific needs,
through their existing suppliers. A two-way trust based relationship, that
was non adversarial, and power symmetric at least to the extent of supplier
centered parameters, is seen, in all three cases.

4) Parameters for process and specification of products is rarely enforced by
buyers themselves. They use independent monitoring agencies and the
certification by internationally accepted bodies to convince themselves of
their supplier’s capabilities. In short codification of buyer instructions limits
their transaction costs.

5) Over and extended period of time, it is seen in case study firms that tight
control have been relaxed. A reliance on buyer standards is resorted to
particularly when trust builds in the relationship. Buyers are confident of
supplier capabilities and are satisfied by their service delivery
parameters so as to enable repeat orders not over two to three years but
over fifteen years. This itself indicate that manufacturing export firms
have built up relationship oriented linkages that border on the network
topology.

6) This is as a result of extended interaction; trust in the chain manifested by
weekly and day to day contacts, informality of communication, information
intensive relationships, with buyers closely interacting with suppliers – a
reciprocal dependence, borne out of years of working together.

7) Ultimately the buyer expects certain product and process standards to be
achieved but would be confident that suppliers could meet them.
8). In fact it would be correct to say that the typology exhibits what Sturgeon (2002) describes as a ‘modular production network’ in Gereffi et al (2005) – going beyond just being called a network typology. The feature of this type of linkage shows a marked similarity to the kind of relationship existing among the case study firms. The features are:

a) Buyers purchase customized products (season specific, trend specific)

b) Usually (but not always), products are designed by buyers or buyer interactive processes and tasks organized between buyers and suppliers. They exchange information regarding the products, designs and specifications; this is aided by the buyer on suppliers’ premises for short periods linked to the next season releases.

c) The interactions become less complex through the use of codified instructions.

d) Suppliers use generic machinery. This can be used for individual order processing as and when required by the specific order.

Suppliers have the necessary skill for the task they undertake, and this reduces the buyers need for continuous monitoring. This means that even though products are specific to each customer, the level of transaction dependence is low. The advantage is that different suppliers can be inserted or removed from the value chain. Buyers have various suppliers across their products and suppliers work for various customers.

8.1.4 Product and Process Upgrading is Seen in Manufacturing Export Firms

The nature of the value chain also affects the kind of upgrading that occurs within and between firms. Four types of upgrading that are distinguished are process upgrading (reorganizing the production system, or introducing superior technology, product upgrading (moving into more sophisticated or improved
product lines which have more unit value), functional upgrading (the take up of
new functions to increase the skill content of activities) and intersectoral
upgrading or value chain upgrading.

On examination of the nature of upgrading activities undertaken within
firms and between firms, the following is observed.

1) Process upgrading by individual case studies with firms is carried out. This
   is done in different ways. The introduction of improved finishing
equipment, the organization of work process around the needs of buyers
sample development requirements, the stoppage of low value adding
activities, the employment or adoption of services located out of the firm
and in buyer markets for clearer identification of buyer market trends and
designs. These are activities which go beyond buyer specifications.

2) Dispensing with low value added activities within the firm, introducing
   superior finishing equipment and efficiency of the work organization, that
   in all three cases involves a number of secondary suppliers, and particular
   process executors (silk embroidery, mat weaving etc).

3) One of the aspects that emerge from studies is that though the transfer and
diffusion of knowledge enables firms to improve their performance and
upgrade (Humphrey and Schmitz, 2003), it is seen that some governance
structures that enables firms to take up new functions or perform with
greater efficiency may also create barriers to the acquisition of other
functions which are higher value added because they interfere with the
capabilities of their buyer firms and may challenge their supremacy in this.
These are functions like designing and marketing capabilities.

4) It is seen that survey firms also exhibit strong process upgrading as seen in
the predominance of the number of firms agreeing with the specific
activities of upgrading undertaken in firms. High value functions have been
taken up by firms though it is done by firms out of the state. Low value
functions are moved out of the firm. Particularly the handloom weaving activity has been transferred to secondary producers and power looms within the cluster and out of Kannur, when it became uneconomical to carry out large scale handloom weaving within the firm.

5) That the predominant typology is network based chains is seen in the strong dependence of buyer firms on their suppliers. This is seen in the strong mutual commitment between firms and the expression of complementary competencies. Shared design development, better value enhancing machinery, better qualified design staff, increasing sample development capabilities, allowing the benefits of better final buyer prices filter down to suppliers, provision of an order execution mechanism that allows for sourcing other products or treatments as the order requires, in streamlined and specific ways, provides support for the modularity of the network.

6) Both parties contribute to innovation in the chain due to the interaction between the suppliers and buyers. Humphrey and Schmitz (2003) have shown that collaboration between users and producers is important in the design of new products. Meyer Stamer et al (2004) show the competitiveness of the ceramic tile producers of Sassuolo in Italy depended on innovations carried out with the equipment producers.

7) In many industries the market leaders require the complementary competencies of the equipment or material suppliers. Danish makers of dairy equipment or the link between Italian tanneries and producers of leather goods are examples. A similar reliance on the specific strengths of the manufacturer exporters is seen by case study firms.

8) Among the survey firms the emphasis on functional upgrading and value chain upgrading is reduced. The number of firms that have taken up distribution agreements or entered into local retailing is few. The existence of designers in buyer markets and shortened production times, or lobbying
activities is greatly reduced. It is fair to say that though learning takes place through interaction between manufacturer and supplier, the extent to which supplier firms can take up branding activities or retail entry, or enter into tailored sourcing or continuous reorder contracts based on demand forecasting (an activity that allows access to buyers weekly sales figures), is limited.

8.1.5 KSFs Have Moved From Product Based to Process Based Factors

An analysis of the factors which were important for firm success was assessed through the survey. The objective was to examine whether there was a change in the kind of factors that contributed to firm success. Did these have an effect on the sources of rent the firm had?

![Figure 8.1: Process Upgrading: Predominantly Negatively Marked](image)

Figure 8.1: Process Upgrading: Predominantly Negatively Marked

1) From the case study reports the firm rents in the form of human resource marketing, Rand D and organization of work were found to be significant. From the survey the factors that initially aided the growth of the industry were mostly related to the firms themselves. Key among this was the personal contact between buyer and seller, personal selling and the role of the seller’s agents. The product related aspects, the fabric weaving and dyeing, quality of colour matching was considered very important.
2) The classification of success factors into order winning and order qualifying characteristics were done for case study firms. This was followed by an analysis using radar charts of how firms rated themselves on these norms and to ensure triangulation included a perspective of the buyer. The buyer rated the similar 7 point scale to examine what were the differences in their perspectives. From the CSF analysis also non tangible aspects of buyer specific factors are increasingly stressed.

3) In an examination of case study and firm data, it is clear that importance is shifting to non tangible attributes. The organization of the work process, an all in one factory facility, process quality enhancements, getting certifications and improving sampling and designing skills are, among others, the attributes that firms actively seek to enhance. Improvements in HR, Quality, were specifically considered important so also the reduction of the sample development time, and increasing capacity to innovate were particularly important.

4) In the case of many firms supplying to developed country markets, the key market segments that firms target focus on the presence of certain ‘USPs’ which may be similar for most product segments. Price, quality, variety, and delivery related aspects of reliability, frequency and order are commonly touted as important.

5) The selection of the factors varies depending on the market niches or the buyer segments for which firms make products. According to Kaplinsky and Morris (2001), the different categories of buyer are a key factor determining not just the capacity of different producers to innovate but the areas which they consider important and where they attempt to ensure CSFs. This has implications for producer firms which are involved in sending products to different market niches in the form of retailer segments.
6) Non tangible aspects were seen to be increasingly used by firms to differentiate their products. This becomes more common as micro segmentation becomes the norm. The creation of specialized market niches which sell products having specific benefits, often related to lifestyle or sensory aspects or safety aspects is becoming common.


A credence good is a complex, new product with quality and/or safety aspects that cannot be known to consumers through sensory inspection or observation in consumption...The quality and safety characteristics that constitute credence attributes include the following:

a. food safety
b. healthier more nutritional foods
c. authenticity
d. production processes that promote a safe environment and sustainable agriculture.
e. ‘fair trade’ attributes (e.g. working conditions).

7) In an environment where such products are becoming the norm, e.g. specialized food products, clothing, children’s toys, cosmetics etc claims made by the products cannot be tested for veracity after manufacture and this leads to the importance of process parameters. It needs to be made in such a way that the credence characteristics are actually incorporated in the process, since these may not be obvious in the final product and may not be easily verified by inspection. Certifying the process that ensures these characteristics is important. Here is the role of governance in ensuring process parameters are met. Firms were unanimous in suggesting that quality certifications needed to be taken up to increase credibility of the industry.
8.1.6 High Value, Low Volume Retail Segment Represents the Major Customer Group

In the study of the value chain one of the important aspects is to recognize how producers access final markets. This is because a narrow focus on the competitiveness of individual producers or even a chain of producers may not be sufficient to understand why some firms are better exporters than others.

The different forms of connecting intermediaries will affect the point of entry into global markets and the capacity of individual producers to upgrade. This makes it important to know how producers are linked to final buyer markets and through what kinds of linkages.

1. The case study data revealed that the major retail segments were those that did not focus on low price as an order winning characteristic. Reasonable price was considered important in all three cases. A strong focus on wholesale buyers, or importer distributors was seen among the customers.

2. Some of the importer wholesalers had their own distribution network or took orders of smaller retailers or shops. They fostered the twin advantage of selling goods in their own labels as well as in the labels of the retail outlets to which they supplied goods. They also stocked their own branded items in these outlets. This way they got the advantage of better mark ups for their own brands as well as the distributor’s margin when providing goods to the retailers.

3. Low price of products was not mentioned as a key USP of retailers. In fact the cases revealed that supply firms had better margins or could command better prices if they could improve their overall product offering. This included aspects like providing efficient work layout, all in one factory premises, adequate finishing equipments, and a strong emphasis on retailer packaging equipment and materials. The processes that went into the manufacture of the fabric form the yarn were not specified by buyers but they relied on supplier capabilities. The suppliers had an extended
network of producers and though they relied on their in house dyeing and weaving capabilities for sample development, in most of the survey firms a combination of production sources were relied on.

4. The survey data showed that the least contribution came from value based retailers. Better quality and better price retailers were more important to the revenues as was the individual retailers. Independent wholesalers were also seen to contribute. A second part of the buying function is an understanding about what are the key product segments that were important.

5. Though the key home textiles groups were still the predominant product groups, an emphasis on non tangible benefits in these categories, strong branding strategies, and strong quality based certifications, related to fair price, organic cotton or labour related standards was seen. Though physically products may not look different, their attributes are considered different.

6. Credence good attributes are seen adapted, by these categories. Also lifestyle products or emerging product categories in home textiles related to location specific uses like, beach, terrace, lawn, or pool, as well as benefit or activity specific clothing like play clothing, night clothing are becoming high valued added product groups firms are producing. This was also seen among survey firms.

7. A final aspect of the dynamics of buying relate to the countries to which products have been sent. In the study a strong emphasis on EU based countries is seen, followed by the UK and then US based buyers. A number of countries are destinations, which shows that firms have many buyers. They do not try to focus on particular countries or retail segments that are easiest to enter (low entry barriers) and serve.

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